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

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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;

- 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.

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 governmental authorities are increasingly involved in indoor air quality standards, especially with respect to asbestos, mold, medical waste and lead-based paint. The clean up of any environmental contamination, including asbestos and mold, can be costly. If environmental problems arise, we may have to make substantial payments which could adversely affect our financial condition and results of operations because:

- as owner or operator we may have to pay for property damage and for investigation and clean-up costs incurred in connection with the contamination;
- the law typically imposes clean-up responsibility and liability regardless of whether the owner or operator knew of or caused the contamination;
- even if more than one person may be responsible for the contamination, each person who shares legal liability under the environmental laws may be held responsible for all of the clean-up costs; and
- governmental entities and third parties may sue the owner or operator of a contaminated site for damages and costs.

These costs could be substantial and in extreme cases could exceed the value of the contaminated property. The presence of hazardous or toxic substances or petroleum products or the failure to properly remediate contamination may adversely affect our ability to borrow against, sell or rent an affected property. In addition, applicable environmental laws create liens on contaminated sites in favor of the government for damages and costs it incurs in connection with a contamination.

Environmental laws also govern the presence, maintenance and removal of asbestos. Such laws require that owners or operators of buildings containing asbestos:

- properly manage and maintain the asbestos;
- notify and train those who may come into contact with asbestos; and
- undertake special precautions, including removal or other abatement, if asbestos would be disturbed during renovation or demolition of a building.

Such laws may impose fines and penalties on building owners or operators who fail to comply with these requirements and may allow third parties to seek recovery from owners or operators for personal injury associated with exposure to asbestos fibers.

It is our policy to retain independent environmental consultants to conduct Phase I environmental site assessments and asbestos surveys with respect to our acquisition of properties. These assessments generally include a visual inspection of the properties and the surrounding areas, an examination of current and historical uses of the properties and the surrounding areas and a review of relevant state, federal and historical documents. However, they do not always involve invasive techniques such as soil and ground water sampling. Where appropriate, on a property-by-property basis, our general practice is to have these consultants conduct additional testing. However, even though these additional assessments may be conducted, there is still the risk that:

- the environmental assessments and updates did not identify all potential environmental liabilities;

- a prior owner created a material environmental condition that is not known to us or the independent consultants preparing the assessments;

- new environmental liabilities have developed since the environmental assessments were conducted; and

- future uses or conditions or changes in applicable environmental laws and regulations could result in environmental liability to us.

Failure to qualify as a REIT would cause us to be taxed as a corporation, which would substantially reduce funds available for payment of dividends.

If we fail to qualify as a REIT for federal income tax purposes, we would be taxed as a corporation. We believe that we are organized and qualified as a REIT and intend to operate in a manner that will allow us to continue to qualify as a REIT. However, we cannot assure you that we are qualified as such, or that we will remain qualified as such in the future. This is because qualification as a REIT involves the application of highly technical and complex provisions of the

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Internal Revenue Code as to which there are only limited judicial and administrative interpretations and involves the determination of facts and circumstances not entirely within our control. Future legislation, new regulations, administrative interpretations or court decisions may significantly change the tax laws or the application of the tax laws with respect to qualification as a REIT for federal income tax purposes or the federal income tax consequences of such qualification.

If we fail to qualify as a REIT we could face serious tax consequences that could substantially reduce our funds available for payment of dividends for each of the years involved because:

- we would not be allowed a deduction for dividends paid to shareholders in computing our taxable income and could be subject to federal income tax at regular corporate rates;
- we also could be subject to the federal alternative minimum tax and possibly increased state and local taxes;
- unless we are entitled to relief under statutory provisions, we could not elect to be subject to tax as a REIT for four taxable years following the year during which we are disqualified; and
- all dividends would be subject to tax as ordinary income to the extent of our current and accumulated earnings and profits potentially eligible as qualified dividends subject to the 15% income tax rate.

In addition, if we fail to qualify as a REIT, we would no longer be required to pay dividends. As a result of these factors, our failure to qualify as a REIT could have a material adverse impact on our results of operations, financial condition and liquidity.

The market value of our securities can be adversely affected by many factors.

As with any public company, a number of factors may adversely influence the public market price of our common shares. These factors include:

- level of institutional interest in us;
- perceived attractiveness of investment in us, in comparison to other REITs;
- attractiveness of securities of REITs in comparison to other asset classes taking into account, among other things, that a substantial portion of REITs dividends are taxed as ordinary income;
- our financial condition and performance;
- the market s perception of our growth potential and potential future cash dividends;
- government action or regulation, including changes in tax law;

- increases in market interest rates, which may lead investors to expect a higher annual yield from our distributions in relation to the price of our shares;
- changes in federal tax laws;
- changes in our credit ratings;
- relatively low trading volume of shares of REITs in general, which tends to exacerbate a market trend with respect to our shares; and
- any negative change in the level of our dividend or the partial payment thereof in common shares.

We cannot assure you we will continue to pay dividends at historical rates.

Our ability to continue to pay dividends on our common shares at historical rates or to increase our common share dividend rate will depend on a number of factors, including, among others, the following:

- our future financial condition and results of operations;
- the performance of lease terms by tenants;
- the terms of our loan covenants; and
- our ability to acquire, finance, develop or redevelop and lease additional properties at attractive rates.

If we do not maintain or increase the dividend rate on our common shares in the future, it could have an adverse effect on the market price of our common shares.

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Provisions of the Maryland General Corporation Law, or the MGCL, may limit a change in control.

There are several provisions of the Maryland General Corporation Law, or the MGCL, that may limit the ability of a third party to undertake a change in control, including:

- a provision where a corporation is not permitted to engage in any business combination with any interested stockholder, defined as any holder or affiliate of any holder of 10% or more of the corporation s stock, for a period of five years after that holder becomes an interested stockholder; and

- a provision where the voting rights of control shares acquired in a control share acquisition, as defined in the MGCL, may be restricted, such that the control shares have no voting rights, except to the extent approved by a vote of holders of two-thirds of the common shares entitled to vote on the matter.

These provisions may delay, defer, or prevent a transaction or a change in control that may involve a premium price for holders of our shares or otherwise be in their best interests.

ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

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ITEM 2: PROPERTIES

The schedule on the following pages lists our real estate investment portfolio as of December 31, 2009, which consisted of 90 properties and land held for development.

As of December 31, 2009, the percent leased is the percentage of net rentable area for which fully executed leases exist and may include signed leases for space not yet occupied by the tenant.

Cost information is included in Schedule III to our financial statements included in this Annual Report on Form 10-K.

Schedule of Properties

Properties	Location	Year Acquired	Year Constructed	Net Rentable Square Feet	Percent Leased 12/31/09
Office Buildings					
1901 Pennsylvania Avenue	Washington, D.C.	1977	1960	97,000	96%
51 Monroe Street	Rockville, MD	1979	1975	210,000	91%
515 King Street	Alexandria, VA	1992	1966	76,000	97%
The Lexington Building	Rockville, MD	1993	1970	46,000	55%
The Saratoga Building	Rockville, MD	1993	1977	58,000	72%
6110 Executive Boulevard	Rockville, MD	1995	1971	198,000	93%
1220 19th Street	Washington, D.C.	1995	1976	102,000	88%
1600 Wilson Boulevard	Arlington, VA	1997	1973	166,000	100%
7900 Westpark Drive	McLean, VA	1997	1972/1986/1999	523,000	96%
600 Jefferson Plaza	Rockville, MD	1999	1985	112,000	82%
1700 Research Boulevard	Rockville, MD	1999	1982	101,000	97%
Parklawn Plaza	Rockville, MD	1999	1986	40,000	80%
Wayne Plaza	Silver Spring, MD	2000	1970	91,000	94%
Courthouse Square	Alexandria, VA	2000	1979	113,000	98%
One Central Plaza	Rockville, MD	2001	1974	267,000	77%
The Atrium Building	Rockville, MD	2002	1980	80,000	81%
1776 G Street	Washington, D.C.	2003	1979	263,000	100%
Albemarle Point	Chantilly, VA	2005	2001	89,000	82%
6565 Arlington Blvd	Falls Church, VA	2006	1967/1998	140,000	78%
West Gude Drive	Rockville, MD	2006	1984/1986/1988	276,000	93%
The Ridges	Gaithersburg, MD	2006	1990	104,000	100%
The Crescent	Gaithersburg, MD	2006	1989	49,000	100%
Monument II	Herndon, VA	2007	2000	205,000	97%
Woodholme Center	Pikesville, MD	2007	1989	73,000	86%
2000 M Street	Washington, D.C.	2007	1971	227,000	89%
Dulles Station	Herndon, VA	2005	2007	180,000	91%
2445 M Street	Washington, D.C.	2008	1986	290,000	100%
Subtotal				4,176,000	91%
Medical Office Buildings					
Woodburn Medical Park I	Annandale, VA	1998	1984	71,000	95%
Woodburn Medical Park II	Annandale, VA	1998	1988	96,000	100%
Prosperity Medical Center I	Merrifield, VA	2003	2000	92,000	100%
Prosperity Medical Center II	Merrifield, VA	2003	2001	88,000	100%
Prosperity Medical Center III	Merrifield, VA	2003	2002	75,000	100%
Shady Grove Medical Village II	Rockville, MD	2004	1999	66,000	100%
8301 Arlington Boulevard	Fairfax, VA	2004	1965	49,000	70%
Alexandria Professional Center	Alexandria, VA	2006	1968	113,000	96%
9707 Medical Center Drive	Rockville, MD	2006	1994	38,000	100%

15001 Shady Grove Road	Rockville, MD	2006	1999	51,000	96%
Plumtree Medical Center	Bel Air, MD	2006	1991	33,000	100%

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SCHEDULE OF PROPERTIES (continued)

Properties	Location	Year Acquired	Year Constructed		Net Rentable* Square Feet	Percent Leased 12/31/09
15005 Shady Grove Road	Rockville, MD	2006	2002		52,000	100%
2440 M Street	Washington, D.C.	2007	1986/2006		110,000	97%
Woodholme Medical Office Bldg	Pikesville, MD	2007	1996		125,000	99%
Ashburn Farm Office Park	Ashburn, VA	2007	1998/2000/2002		75,000	86%
CentreMed I & II	Centreville, VA	2007	1998		52,000	100%
Sterling Medical Office Building[1]	Sterling, VA	2008	1986/2000		36,000	68%
Lansdowne Medical Office Building[1]	Leesburg, VA	2009	2009		87,000	0%
Subtotal					1,309,000	89%
Retail Centers						
Takoma Park	Takoma Park, MD	1963	1962		51,000	100%
Westminster	Westminster, MD	1972	1969		151,000	98%
Concord Centre	Springfield, VA	1973	1960		76,000	92%
Wheaton Park	Wheaton, MD	1977	1967		72,000	96%
Bradlee	Alexandria, VA	1984	1955		168,000	97%
Chevy Chase Metro Plaza	Washington, D.C.	1985	1975		49,000	100%
Montgomery Village Center	Gaithersburg, MD	1992	1969		198,000	94%
Shoppes of Foxchase[2]	Alexandria, VA	1994	1960/2006		134,000	95%
Frederick County Square	Frederick, MD	1995	1973		227,000	93%
800 S. Washington Street	Alexandria, VA	1998/2003	1955/1959		44,000	96%
Centre at Hagerstown	Hagerstown, MD	2002	2000		332,000	100%
Frederick Crossing	Frederick, MD	2005	1999/2003		295,000	98%
Randolph Shopping Center	Rockville, MD	2006	1972		82,000	98%
Montrose Shopping Center	Rockville, MD	2006	1970		143,000	83%
Subtotal					2,022,000	96%
Multifamily Buildings				# of units		
3801 Connecticut Avenue	Washington, D.C.	1963	1951	308	179,000	92%
Roosevelt Towers	Falls Church, VA	1965	1964	191	170,000	95%
Country Club Towers	Arlington, VA	1969	1965	227	163,000	97%
Park Adams	Arlington, VA	1969	1959	200	173,000	98%
Munson Hill Towers	Falls Church, VA	1970	1963	279	259,000	98%
The Ashby at McLean	McLean, VA	1996	1982	256	252,000	98%
Walker House Apartments	Gaithersburg, MD	1996	1971/2003[3]	212	159,000	94%
Bethesda Hill Apartments	Bethesda, MD	1997	1986	195	226,000	96%
Bennett Park	Arlington, VA	2007	2007	224	268,000	98%
Clayborne	Alexandria, VA	2008	2008	74	87,000	95%
Kenmore	Washington, D.C.	2008	1948	374	270,000	94%
Subtotal				2,540	2,206,000	96%
Industrial/Flex Properties						
Fullerton Business Center	Springfield, VA	1985	1980		104,000	42%
Charleston Business Center	Rockville, MD	1993	1973		85,000	97%
The Alban Business Center	Springfield, VA	1996	1981/1982		87,000	84%
Ammendale Technology Park I	Beltsville, MD	1997	1985		167,000	79%
Ammendale Technology Park II	Beltsville, MD	1997	1986		107,000	70%
Pickett Industrial Park	Alexandria, VA	1997	1973		246,000	97%

Northern Virginia Industrial Park	Lorton, VA	1998	1968/1991	787,000	82%
8900 Telegraph Road	Lorton, VA	1998	1985	32,000	4%
Dulles South IV	Chantilly, VA	1999	1988	83,000	90%
Sully Square	Chantilly, VA	1999	1986	95,000	74%

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SCHEDULE OF PROPERTIES (continued)

Properties	Location	Year Acquired	Year Constructed	Net Rentable Square Feet	Percent Leased 12/31/09
Amvax	Beltsville, MD	1999	1986	31,000	100%
Fullerton Industrial Center	Springfield, VA	2003	1980	137,000	74%
8880 Gorman Road	Laurel, MD	2004	2000	141,000	100%
Dulles Business Park Portfolio	Chantilly, VA	2004/2005	1999-2005	324,000	93%
Albemarle Point	Chantilly, VA	2005	2001/2003/2005	207,000	86%
Hampton Overlook	Capital Heights, MD	2006	1989/2005	302,000	92%
9950 Business Parkway	Lanham, MD	2006	2005	102,000	100%
270 Technology Park	Frederick, MD	2007	1986-1987	157,000	73%
6100 Columbia Park Road	Landover, MD	2008	1969	150,000	100%
Subtotal				3,344,000	85%
TOTAL				13,057,000	

[1] The sellers of Sterling Medical Office Building agreed to lease 37% of the building s space for a period of 12 18 months following the date of sale.

[2] Development on approximately 60,000 square feet of the center was completed in December 2006.

[3] A 16 unit addition referred to as The Gardens at Walker House was completed in October 2003.

* Multifamily buildings are presented in gross square feet.

ITEM 3: LEGAL PROCEEDINGS

None.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2009.

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PART II

ITEM 5: MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our shares trade on the New York Stock Exchange. Currently, there are approximately 6,484 shareholders of record.

The high and low sales price for our shares for 2009 and 2008, by quarter, and the amount of dividends we paid per share are as follows:

Quarter	Dividends Per Share	Quarterly Share Price Range	
		High	Low
2009			
Fourth	$ .4325	$ 29.00	$ 25.58
Third	$ .4325	$ 30.02	$ 21.17
Second	$ .4325	$ 23.05	$ 16.91
First	$ .4325	$ 27.48	$ 15.60
2008			
Fourth	$ .4325	$ 36.39	$ 20.33
Third	$ .4325	$ 37.61	$ 28.98
Second	$ .4325	$ 36.07	$ 30.05
First	$ .4225	$ 34.38	$ 26.91

We have historically paid dividends on a quarterly basis. Dividends are primarily paid from our cash flow from operating activities.

During the period covered by this report, we did not sell equity securities without registration under the Securities Act.

Neither we nor any affiliated purchaser (as that term is defined in Securities Exchange Act Rule 10b-18(a) (3)) made any repurchases of our shares during the fourth quarter of the fiscal year covered by this report.

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ITEM 6: SELECTED FINANCIAL DATA

The following table sets forth our selected financial data on a historical basis, which has been revised for properties disposed of or classified as held for sale (see note 3 to the consolidated financial statements). The following data should be read in conjunction with our financial statements and notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10-K.

	2009	2008[1]	2007[1]	2006[1]	2005[1]
	(in thousands, except per share data)				
Real estate rental revenue	$ 306,929	$ 278,691	$ 248,899	$ 202,334	$ 174,092
Income from continuing operations	$ 26,021	$ 7,889	$ 25,136	$ 32,477	$ 35,288
Discontinued operations:					
Income from operations of properties sold or held for sale	$ 1,579	$ 4,129	$ 7,510	$ 5,780	$ 5,511
Gain on sale of real estate	$ 13,348	$ 15,275	$ 25,022		$ 37,011
Net income	$ 40,948	$ 27,293	$ 57,668	$ 38,257	$ 77,810
Net income attributable to the controlling interests	$ 40,745	$ 27,082	$ 57,451	$ 38,053	$ 77,638
Income from continuing operations attributable to the controlling interests per share diluted	$ 0.45	$ 0.15	$ 0.53	$ 0.73	$ 0.83
Net income attributable to the controlling interests per share diluted	$ 0.71	$ 0.55	$ 1.24	$ 0.87	$ 1.84
Total assets	$ 2,045,225	$ 2,109,407	$ 1,897,018	$ 1,530,863	$ 1,139,159
Lines of credit payable	$ 128,000	$ 67,000	$ 192,500	$ 61,000	$ 24,000
Mortgage notes payable	$ 405,451	$ 421,286	$ 252,484	$ 229,240	$ 161,631
Notes payable	$ 688,912	$ 890,679	$ 861,819	$ 719,862	$ 518,600
Shareholders equity	$ 745,255	$ 636,630	$ 502,540	$ 449,922	$ 380,305
Cash dividends paid	$ 100,221	$ 85,564	$ 78,050	$ 72,681	$ 67,322
Cash dividends declared and paid per share	$ 1.73	$ 1.72	$ 1.68	$ 1.64	$ 1.60

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

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ITEM 7: MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our Management s Discussion and Analysis of Financial Conditions and Results of Operations (MD&A) is provided in addition to the accompanying consolidated financial statements and notes to assist readers in understanding our results of operations and financial condition. MD&A is organized as follows:

- *Overview.* Discussion of our business, operating results, investment activity and cash requirements, and summary of our significant transactions to provide context for the remainder of MD&A.
- *Critical Accounting Policies and Estimates.* Descriptions of accounting policies that reflect significant judgments and estimates used in the preparation of our consolidated financial statements.
- *Results of Operations.* Discussion of our financial results comparing 2009 to 2008 and comparing 2008 to 2007.
- *Liquidity and Capital Resources.* Discussion of our financial condition and analysis of changes in our capital structure and cash flows.

When evaluating our financial condition and operating performance, we focus on the following financial and non-financial indicators:

- Net operating income (NOI), calculated as real estate rental revenue less real estate expenses excluding depreciation and amortization and general and administrative expenses. NOI is a non-GAAP supplemental measure to net income.
- Funds From Operations (FFO), calculated as set forth below under the caption Funds from Operations. FFO is a non-GAAP supplemental measure to net income.
- 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.
- Rental rates.
- Leasing activity, including new leases, renewals and expirations.

Overview

Business

Our revenues are derived primarily from the ownership and operation of income-producing properties in the greater Washington metro region. As of December 31, 2009, we owned a diversified portfolio of 90 properties totaling approximately 10.9 million square feet of commercial space and 2,540 multifamily units. These 90 properties consisted of 27 office properties, 20 industrial/flex properties, 18 medical office properties, 14 retail centers, and 11 multifamily properties and land held for development.

We have a fundamental strategy of regional focus and diversification by property type. In recent years we have sought to pursue a strategy of upgrading our portfolio by selling lower quality properties and acquiring or developing higher quality properties. We will seek to continue to upgrade our portfolio as opportunities arise. However, market conditions limited our acquisition opportunities during 2009 and may continue to limit our ability to acquire or sell properties at attractive prices in the future.

Operating Results

Real estate rental revenue, NOI, net income and FFO for 2009 and 2008 were as follows (in thousands):

	2009	2008	Change
Real estate rental revenue	$ 306,929	$ 278,691	$ 28,238
NOI [1]	$ 202,356	$ 185,192	$ 17,164
Net income attributable to the controlling interests	$ 40,745	$ 27,082	$ 13,663
FFO [2]	$ 121,771	$ 98,688	$ 23,083

(1) See pages 31 and 38 of the MD&A for reconciliations of NOI to net income.

(2) See page 55 of the MD&A for reconciliations of FFO to net income.

Our growth in NOI, net income and FFO during 2009 is due to acquisitions made during 2008 and the lease-up of our development properties. We currently do not expect this growth to continue in 2010, as the current market for acquisitions is difficult and our development properties are now stabilized. NOI from our core portfolio, consisting of properties owned for the entirety of 2009 and the same time period in 2008, was $179.6 million for 2009 compared to $181.6 million for 2008, a decrease of 1.1%.

We believe the national economic recession was responsible for the lower NOI from our core portfolio. While the Washington metro region remains one of the best performing real estate markets in the nation according to Delta Associates/Transwestern Commercial Services (Delta), it still reflected the impact of the economic recession during 2009, with declining occupancy and rental rates across all commercial segments. The near-term outlook for recovery remains slow, as occupancy and rental rates are currently expected to continue to decline in 2010, according to the Center for Regional Analysis at George Mason University (CRA).

The performance of our five operating segments and the market conditions in our region are discussed in greater detail below (industry data is as reported by Delta):

The region s office market remained weak during 2009, with overall vacancy increasing to 13.0% from 10.6% in 2008. Vacancy in the submarkets was 14.0% for Northern Virginia, 14.8% for Suburban Maryland, and 10.5% in the District of Columbia. Net absorption (defined as the change in occupied, standing inventory from one year to the next) decreased to 0.6 million square feet from 3.4 million square feet in 2008, and the pipeline of new office properties in the region decreased to 5.7 million square feet from 15.4 million square feet in the prior year. Our office segment was 91.5% leased at year-end 2009, a decrease from 94.0% leased at year-end 2008. By submarket, our office segment was 93.8% leased in Northern Virginia, 87.0% leased in Suburban Maryland, and 95.8% leased in the District of Columbia at year end 2009.

Our medical office segment was 89.4% leased at year-end 2009, a decrease from 97.0% at year-end 2008. The decrease is due to the acquisition of the vacant Lansdowne Medical Office Building during the third quarter of 2009.

The region s retail market declined in 2009, with vacancy rates increasing to 5.6% from 3.7% in 2008. Rental rates at grocery-anchored centers decreased 5.8% in 2009, as compared to a 1.7% increase in 2008. Our retail segment was 96.0% leased at year-end 2009, down from 97.8% at year-end 2008.

The region s multifamily market was more resilient than the commercial markets during 2009. The region s vacancy rate for investment grade apartments remained the same at 4.3%, though rents did decrease by 2.0%. Our multifamily segment was 95.8% leased at year-end 2009, up from 91.1% at year-end 2008.

The region s industrial market contracted during 2009. Rents decreased by 4.3% and vacancy increased to 11.4%, compared to 10.1% one year ago. Net absorption was a negative 2.3 million square feet, compared to a positive 4.4 million square feet in 2008. Our industrial segment was 84.6% leased at year-end 2009, a decrease from 91.9% at year-end 2008.

Investment Activity

We sold four lower-performing properties during 2009 in order to improve the quality of our portfolio, while executing only one property acquisition. This acquisition/disposition level is in contrast to the prior two years, during which we acquired or placed into service 15 properties and sold four properties. Our decrease in acquisition activity mirrors the overall market, as property investment transactions were down dramatically during 2009, according to Delta. For 2010, we currently expect a greater level of acquisitions in 2010 than in 2009. However, we do not expect these potential acquisitions to provide any significant improvement to our operating performance in 2010 due to acquisition costs.

Cash Requirements

The current economic recession has generally made it challenging to secure debt financing. Over the past year, we have focused on strengthening our balance sheet in order to minimize our refinancing risk and prepare for future acquisitions as transaction volume increases. Our total debt maturities in 2010 and 2011 are $104.5 million and $326.1 million, respectively. We currently expect to pay these maturities with some combination of proceeds from new debt, property sales and equity issuances.

Significant Transactions

We summarize below our significant transactions during the two years ended December 31, 2009:

2009

- 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 dispositions of two industrial properties, Tech 100 Industrial Park and Crossroads Distribution Center, for contract sales prices of $10.5 million and $4.4 million, respectively, and gains on sale of $4.1 million and $1.5 million, respectively.

- 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, Lansdowne Medical Office Building, for $19.9 million, adding approximately 87,400 square feet, which was 0% leased at the end of 2009.

- 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. We also entered into a forward interest rate swap on a notional amount of $100.0 million, which had the effect of fixing the interest rate on the loan at 4.85% for the period from February 20, 2010 through the maturity date of November 1, 2011.

- The prepayment of our $100.0 million unsecured term loan with Wells Fargo Bank, National Association on December 1, 2009 using borrowings from our unsecured lines of credit. The prepayment resulted in a $1.5 million loss on extinguishment of debt.

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 repurchases of $109.7 million of our 3.875% convertible notes prices ranging from 80% to 97.63% of par, resulting in a net gain on extinguishment of debt of $6.8 million.

The execution of new leases for 1.4 million square feet of commercial space, with an average rental rate increase of 10.2% over expiring leases.

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2008

- The acquisition of one office property, 2445 M Street, for $181.4 million, adding approximately 290,000 square feet.

- The acquisition of one 374 unit apartment building, Kenmore Apartments, for $58.3 million, adding approximately 270,000 square feet.

- The acquisition of one medical office property, Sterling Medical Office Building, for $6.5 million, adding approximately 36,000 square feet.

- The acquisition of one industrial/flex property, 6100 Columbia Park Road, for $11.2 million, adding approximately 150,000 square feet.

- The disposition of two industrial/flex properties, Sullyfield Center and the Earhart Building, for a contract sales price of $41.1 million and a gain on sale of $15.3 million.

- The agreement to acquire one medical office property, Lansdowne Medical Office Building, for $19.5 million. The purchase occurred during 2009, as noted in the fifth bullet under 2009 above.

- The completion of a public offering of 2,600,000 common shares priced at $34.80 per share, raising $86.7 million in net proceeds during the second quarter of 2008.

- The completion of a public offering of 1,725,000 common shares priced at $35.00 per share, raising $57.6 million in net proceeds during the fourth quarter of 2008.

- The issuance of 1.1 million common shares at a 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 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. We refinanced the repurchase of these notes, and refinanced a portion of line outstandings, by issuing a $100 million two-year term loan. We 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 repurchase of $16.0 million of our 3.875% convertible notes at a 25% discount to par value, resulting in a gain on extinguishment of debt of $2.9 million.

The increase in the capacity of our 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 1.5 million square feet of commercial space elsewhere in our portfolio, with an average rental rate increase of 19.4%.

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,

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bad debts, contingencies and litigation. We base the estimates on historical experience and on various other assumptions that we believe 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 in Item 8 of this Form 10-K.

Revenue Recognition

We lease multifamily properties under operating leases with terms of generally one year or less. We lease commercial properties (our office, medical office, retail and industrial segments) under operating leases with average terms of three to seven years. We recognize rental income and rental abatements from our multifamily 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. We base this estimate on our historical experience and a review of the current status of our receivables. We recognize percentage rents, which represent additional rents based on gross tenant sales, when tenants sales exceed specified thresholds.

We recognize sales of real estate 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. We review receivables monthly and establish reserves when, in the opinion of management, collection of the receivable is doubtful. We establish reserves for tenants whose rent payment history or financial condition casts doubt upon the tenants ability to perform under their lease obligations. When we deem the collection of a receivable to be doubtful in the same quarter that we established the receivable, then we recognize the allowance for that receivable as an offset to real estate revenues. When we deem a receivable that was initially established in a prior quarter to be doubtful, then we recognize the allowance 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.

We include notes receivable balances of $8.5 million and $8.6 million as of December 31, 2009 and 2008, respectively, in our accounts receivable balances.

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 for the years ended December 31, 2009, 2008 and 2007 was $75.8 million, $68.5 million and $55.0 million, respectively. We charge maintenance and repair costs that do not extend an asset s life 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 $1.4 million, $2.3 million and $6.7 million for the years ended December 31, 2009, 2008 and 2007, respectively. We amortize capitalized interest over the useful life of the related underlying assets upon those assets being placed into service.

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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 year ended December 31, 2007. During 2009 and 2008, we expensed $0.1 million and $0.6 million, respectively, included in general and administrative expenses, related to development projects no longer considered probable.

We record real estate acquisitions as business combinations in accordance with GAAP. We record acquired or assumed assets, including physical assets and in-place leases, and liabilities, based on their fair values. We record goodwill when the purchase price exceeds the fair value of the assets and liabilities acquired. We determine the estimated fair values of the assets and liabilities in accordance with current GAAP fair value provisions. We determine the fair values of acquired buildings 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. We allocate the as-if-vacant fair value 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 December 31, 2009 and 2008.

We discount the amounts used to calculate net lease intangibles using an interest rate which reflects the risks associated with the leases acquired. We include tenant origination costs in income producing property on our balance sheet and amortize the tenant origination costs as depreciation expense on a straight-line basis over the remaining life of the underlying leases. We classify leasing commissions and absorption costs as other assets and amortize leasing commissions and absorption costs as amortization expense on a straight-line basis over the remaining life of the underlying leases. We classify net lease intangible assets as other assets and amortize net lease intangible assets on a straight-line basis as a decrease to real estate rental revenue over the remaining term of the underlying leases. We classify net lease intangible liabilities as other liabilities and amortize net lease intangible liabilities 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, we write off the unamortized portion of the tenant origination cost, leasing commissions, absorption costs and net lease intangible associated with that lease.

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 May 2009, we sold a multifamily property, Avondale, for a gain of $6.7 million. In July 2009, we sold an industrial property, Tech 100 Industrial Park, and an office property, Brandywine Center, for gains of $4.1 million and $1.0 million, respectively. In November 2009, we sold an industrial property, Crossroads Distribution Center, for a gain of $1.5 million. In June 2008, we sold two industrial properties, Sullyfield Center and The Earhart Building, for a gain of $15.3 million. The gains from the sales were paid out to the 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. Certain of our taxable REIT subsidiaries have net operating loss carryforwards available of approximately $5.3 million. These carryforwards begin to expire in 2028. We have considered estimated future taxable income and have determined that a full valuation allowance for our net deferred tax assets is appropriate. There were no income tax provisions or material deferred income tax items for our TRS for the years ended December 31, 2009, 2008 and 2007.

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Results of Operations

The discussion that follows is based on our consolidated results of operations for the years ended December 31, 2009, 2008 and 2007. The ability to compare one period to another may be significantly affected by acquisitions completed and dispositions made during those years.

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.

Properties we acquired during the years ending December 31, 2009, 2008 and 2007 are as follows:

Acquisition Date	Property	Type	Rentable Square Feet	Contract Purchase Price (In thousands)
August 13, 2009	Lansdowne Medical Office Building	Medical Office	87,000	$ 19,900
		Total 2009	87,000	$ 19,900
February 22, 2008	6100 Columbia Park Road	Industrial/Flex	150,000	$ 11,200
May 21, 2008	Sterling Medical Office Building	Medical Office	36,000	6,500
September 3, 2008	Kenmore Apartments (374 units)	Multifamily	270,000	58,300
December 2, 2008	2445 M Street	Office	290,000	181,400
		Total 2008	746,000	$ 257,400
February 8, 2007	270 Technology Park	Industrial/Flex	157,000	$ 26,500
March 1, 2007	Monument II	Office	205,000	78,200
March 9, 2007	2440 M Street	Medical Office	110,000	50,000
June 1, 2007	Woodholme Medical Office Building	Medical Office	125,000	30,800
June 1, 2007	Woodholme Center	Office	73,000	18,200
June 1, 2007	Ashburn Farm Office Park	Medical Office	75,000	23,000
August 16, 2007	CentreMed I & II	Medical Office	52,000	15,300
August 30, 2007	4661 Kenmore Avenue	Land for Development	n/a	3,750
December 4, 2007	2000 M Street	Office	227,000	73,500
		Total 2007	1,024,000	$ 319,250

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Properties we sold or classified as held for sale during the three years ending December 31, 2009 are as follows:

Disposition Date	Property	Type	Rentable Square Feet	Contract Purchase Price (In thousands)
May 13, 2009	Avondale	Multifamily	170,000	$ 19,800
July 23, 2009	Tech 100 Industrial Park	Industrial	166,000	10,500
July 31, 2009	Brandywine Center	Office	35,000	3,300
November 13, 2009	Crossroads Distribution Center	Industrial	85,000	4,400
	Charleston Business Center	Industrial	85,000	Held for sale
		Total 2009	541,000	$ 38,000
June 6, 2008	Sullyfield Center/The Earhart Building	Industrial	336,000	$ 41,100
		Total 2008	336,000	$ 41,100
September 26, 2007	Maryland Trade Center I & II	Office	342,000	$ 58,000
		Total 2007	342,000	$ 58,000

We placed into service two development properties, Clayborne Apartments and Dulles Station, Phase I, in 2008, and one development property, Bennett Park, at the end of 2007.

To provide more insight into our operating results, we divide our discussion 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. NOI is a non-GAAP measure calculated as real estate rental revenue less real estate expenses excluding depreciation and amortization and general and administrative expenses.

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):

	2009	2008	2007	2009 vs 2008	% Change	2008 vs 2007	% Change
Minimum base rent	$ 265,433	$ 242,477	$ 217,730	$ 22,956	9.5%	$ 24,747	11.4%
Recoveries from tenants	36,555	30,874	24,924	5,681	18.4%	5,950	23.9%
Provisions for doubtful accounts	(6,232)	(4,451)	(1,931)	(1,781)	(40.0%)	(2,520)	(130.5%)
Lease termination fees	1,471	1,101	505	370	33.6%	596	118.0%
Parking and other tenant charges	9,702	8,690	7,671	1,012	11.6%	1,019	13.3%
	$ 306,929	$ 278,691	$ 248,899	$ 28,238	10.1%	$ 29,792	12.0%

Real estate rental revenue is comprised of (a) minimum base rent, which includes rental revenues recognized on a straight-line basis, (b) revenue from the recovery of operating expenses from our tenants, (c) provisions for doubtful accounts, which includes provisions for straight-line receivables, (d) revenue from the collection of lease termination fees and (e) parking and other tenant charges such as percentage rents.

Minimum Base Rent: Minimum base rent increased by $23.0 million in 2009 as compared to 2008 due primarily to properties acquired or placed into service in 2009 and 2008 ($21.0 million), combined with a $2.0 million increase in minimum base rent from core properties due to higher rental rates, partially offset by higher vacancy.

Minimum base rent increased by $24.7 million in 2008 as compared to 2007 due primarily to properties acquired or placed into service in 2008 and 2007 ($22.5 million), combined with a $2.2 million increase in minimum base rent from core properties due to higher rental rates in all segments, partially offset by higher vacancy in the commercial segments.

Recoveries from Tenants: Recoveries from tenants increased by $5.7 million in 2009 as compared to 2008 due primarily to properties acquired or placed into service in 2009 and 2008 ($5.5 million), combined with a $0.2 million increase in recoveries from tenants from core properties primarily due to higher utilities reimbursements ($0.7 million) and real estate tax reimbursements ($0.3 million), offset by lower common area maintenance reimbursements ($0.9 million) due to lower occupancy in the retail and industrial segments.

Recoveries from tenants increased by $6.0 million in 2008 as compared to 2007 due primarily to properties acquired or placed into service in 2008 and 2007 ($4.0 million), combined with a $2.0 million increase in recoveries from tenants from core properties primarily due to higher real estate tax reimbursements ($1.6 million) and common area maintenance reimbursements ($0.3 million).

Provisions for Doubtful Accounts: Provisions for doubtful accounts increased by $1.8 million in 2009 as compared to 2008 due to higher provisions in the office ($1.3 million) and retail ($0.7 million) segments, offset by lower provisions in the medical office segment ($0.3 million). The higher overall provision is reflective of the economic recession that began in 2008.

Provisions for doubtful accounts increased by $2.5 million in 2008 as compared to 2007 due to higher provisions in the retail ($1.0 million), industrial ($0.9 million) and office ($0.5 million) segments. Provisions for bad debt in the multifamily and medical office segments did not materially change. The higher overall provision is reflective of the economic recession that began in 2008.

Lease Termination Fees: Lease termination fees increased by $0.4 million in 2009 as compared to 2008 due primarily to higher fees in the retail ($0.3 million) and industrial ($0.4 million) segments, partially offset by lower fees in the office segment ($0.4 million).

Lease termination fees increased by $0.6 million in 2008 as compared to 2007 due primarily to higher fees in the office segment ($0.8 million), partially offset by lower fees in the retail segment ($0.2 million).

Parking and Other Tenant Charges: Parking and other tenant charges increased by $1.0 million in 2009 as compared to 2008 due primarily to properties acquired or placed into service in 2009 and 2008 ($0.8 million), combined with a $0.2 million increase in parking and other tenant charges from core properties primarily due to higher parking fees ($0.1 million) in the office segment.

Parking and other tenant charges increased by $1.0 million in 2008 as compared to 2007 due primarily to higher parking revenue and miscellaneous fees in the multifamily ($0.3 million), office ($0.4 million) and medical office ($0.2 million) segments.

A summary of economic occupancy for properties classified as continuing operations by segment follows:

Consolidated Economic Occupancy

Segment	**2009**	**2008**	**2007**	**2009 vs 2008**	**2008 vs 2007**
Office	92.6%	93.2%	94.6%	(0.6%)	(1.4%)
Medical Office	95.2%	96.5%	98.3%	(1.3%)	(1.8%)
Retail	94.6%	94.9%	95.2%	(0.3%)	(0.3%)
Multifamily	91.5%	83.0%	89.2%	8.5%	(6.2%)
Industrial	89.6%	93.8%	95.2%	(4.2%)	(1.4%)
Total	92.7%	92.3%	94.5%	0.4%	(2.2%)

Economic occupancy represents 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.

Our overall economic occupancy increased to 92.7% in 2009 from 92.3% in 2008, due to the lease-up of our development properties in the office and multifamily segments. Our development properties Bennett Park, Clayborne Apartments and Dulles Station, Phase I were placed into service at the end of 2007 and during 2008, and were 98%, 95% and 91% leased at the end of 2009, respectively. The gains at these development properties were offset by lower occupancy across the rest of the portfolio, particularly in the industrial segment.

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Our overall economic occupancy decreased to 92.3% in 2008 from 94.5% in 2007, driven primarily by the lease-up during 2008 of our development properties in the office and multifamily segments. Our development properties Bennett Park, Clayborne Apartments and Dulles Station, Phase I were placed into service at the end of 2007 and during 2008, and were 78%, 64% and 86% leased at the end of 2008, respectively.

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

Real Estate Expenses

Real estate expenses are summarized as follows (all data in thousands except percentage amounts):

	2009	2008	2007	2009 vs 2008	% Change	2008 vs 2007	% Change
Property operating expenses	$ 71,839	$ 65,549	$ 55,668	$ 6,290	9.6%	$ 9,881	17.7%
Real estate taxes	32,734	27,950	21,691	4,784	17.1%	6,259	28.9%
	$ 104,573	$ 93,499	$ 77,359	$ 11,074	11.8%	$ 16,140	20.9%

Real estate expenses as a percentage of revenue were 34.1% for 2009, 33.5% for 2008 and 31.1% for 2007.

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

Property operating expenses increased $6.3 million in 2009 as compared to 2008 due primarily to properties acquired and placed into service in 2009 and 2008, which accounted for $4.8 million of the increase. Property operating expenses from core properties increased by $1.5 million, driven by higher electricity costs ($0.6 million) due to increased rates and higher snow removal costs ($1.3 million, not including any tenant reimbursements) due to a severe snow storm in December 2009.

Property operating expenses increased $9.9 million in 2008 as compared to 2007 due primarily to properties acquired and placed into service in 2008 and 2007, which accounted for $9.0 million of the increase. Property operating expenses from core properties increased by $0.9 million, driven by higher repairs and maintenance costs ($0.5 million) and administrative costs ($0.5 million).

Real Estate Taxes: Real estate taxes increased $4.8 million in 2009 as compared to 2008 due primarily to the properties acquired or placed into service in 2009 and 2008, which accounted for $3.4 million of the increase. Real estate taxes on core properties increased by $1.4 million due primarily to higher rates and assessments across the portfolio.

Real estate taxes increased $6.3 million in 2008 as compared to 2007 due primarily to the properties acquired or placed into service in 2008 and 2007, which accounted for $4.1 million of the increase. Real estate taxes on core properties increased by $2.2 million due primarily to higher rates and assessments across the portfolio.

Other Operating Expenses

Other operating expenses are summarized as follows (all data in thousands except percentage amounts):

	2009	2008	2007	2009 vs 2008	% Change	2008 vs 2007	% Change
Depreciation and amortization	$ 94,042	$ 85,659	$ 68,364	$ 8,383	9.8%	$ 17,295	25.3%
Interest expense	75,001	75,041	66,336	(40)	(0.1%)	8,705	13.1%
General and administrative	13,906	12,110	14,882	1,796	14.8%	(2,772)	(18.6%)

$ 182,949	$ 172,810	$ 149,582	$ 10,139	5.9%	$ 23,228	15.5%

Depreciation and Amortization: Depreciation and amortization expense increased by $8.4 million in 2009 as compared to 2008 due primarily to properties acquired and placed into service of $19.9 million and $340.3 million in 2009 and 2008, respectively.

Depreciation and amortization expense increased by $17.3 million in 2008 as compared to 2007 due primarily to properties acquired and placed into service of $340.3 million and $411.4 million in 2008 and 2007, respectively.

Interest Expense: A summary of interest expense for the years ended December 31, 2009, 2008 and 2007 appears below (in millions, except percentage amounts):

Debt Type	2009	2008	2007	2009 vs. 2008	% Change	2008 vs. 2007	% Change
Notes payable	$ 48.2	$ 53.2	$ 52.2	$ (5.0)	(9.4%)	$ 1.0	1.9%
Mortgages	26.7	18.4	14.5	8.3	45.1%	3.9	26.9%
Lines of credit/short-term note payable	1.5	5.7	6.3	(4.2)	(73.7%)	(0.6)	(9.5%)
Capitalized interest	(1.4)	(2.3)	(6.7)	0.9	39.1%	4.4	65.7%
Total	$ 75.0	$ 75.0	$ 66.3	$	%	$ 8.7	13.1%

Interest expense was flat in 2009 compared to 2008. An $8.3 million increase in mortgage interest due to entering into three new mortgage notes during the second quarter of 2008 and assuming the 2445 M Street mortgage in the fourth quarter of 2008 was offset by lower notes payable interest due to early paydowns of notes. Also, interest on our unsecured lines of credit decreased by $4.2 million due to lower balances outstanding and lower interest rates. The proceeds of the 2008 mortgage notes were used to pay down our unsecured lines of credit.

Interest expense increased $8.7 million in 2008 compared to 2007, reflecting a $4.4 million decrease in capitalized interest due to placing development projects into service at the end of 2007 and during 2008. Also, mortgage interest increased by $3.9 million due to entering into three new mortgage notes during the second quarter of 2008, as well as assuming a mortgage as part of the 2445 M Street acquisition in the fourth quarter of 2008. The proceeds of the new mortgage notes were used to pay down our unsecured lines of credit.

General and Administrative Expense: General and administrative expense increased by $1.8 million in 2009 as compared to 2008 due primarily to higher incentive compensation expense ($2.1 million) and the expensing of pre-acquisition costs ($0.8 million) related to the purchase of Lansdowne Medical Office Building in 2009. Pre-acquisition costs were capitalized prior to the January 1, 2009 adoption of current GAAP provisions regarding business combinations (see note 2 to the consolidated financial statements). These were partially offset by an increase in the cash surrender value of officer life insurance policies ($0.6 million).

General and administrative expense decreased by $2.8 million in 2008 as compared to 2007 due primarily to lower incentive compensation expense ($3.1 million). This was partially offset by a decrease in the cash surrender value of officer life insurance policies ($0.3 million).

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.

We sold four properties in 2009. We sold Avondale, a multifamily property, on May 13, 2009 for a contract sales price of $19.8 million that resulted in a gain on sale of $6.7 million. We sold Tech 100 Industrial Park, an industrial property, on July 23, 2009 for a contract sales price of $10.5 million that resulted in a gain on sale of $4.1 million. We sold Brandywine Center, an office property, on July 31, 2009 for a contract sales price of $3.3 million that resulted in a gain on sale of $1.0 million. We sold Crossroads Distribution Center, an industrial property, on November 13, 2009 for a contract sales price of $4.4 million that resulted in a gain on sale of $1.5 million.

Charleston Business Center, an industrial property, met the criteria necessary for classification as held for sale as of March 31, 2009. Senior management has committed to, and actively embarked upon, a plan to sell this asset and the sale is expected to be completed within one year under terms usual and customary for such sales, with no indications that the plan will be significantly altered or abandoned. Depreciation on this property has been discontinued as of the date it was classified as held for sale, but operating revenues and expenses continue to be recognized until the date of sale. Under GAAP, revenues and expenses of properties that are classified as held for sale are treated as discontinued operations for all periods presented in the consolidated statements of income.

We sold Sullyfield Center and The Earhart Building, two industrial properties, on June 6, 2008 for a contract sales price of $41.1 million that resulted in a gain on sale of $15.3 million.

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We sold Maryland Trade Centers I and II, two office properties, on September 26, 2007 for a contract sales price of $58.0 million that resulted in gain on sale of $25.0 million. We used $15.3 million of the proceeds from the sale to fund the purchase of CentreMed I & II on August 16, 2007 in a reverse tax free property exchange. We escrowed $40.1 million of the proceeds from the sale in a tax free property exchange account, and subsequently used these proceeds to fund a portion of the purchase price of 2000 M Street on December 4, 2007.

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

	2009	2008	2007	2009 vs. 2008	% Change	2008 vs. 2007	% Change
Revenues	$ 3,346	$ 8,496	$ 16,111	$ (5,150)	(60.6%)	$ (7,615)	(47.3%)
Property expenses	(1,362)	(3,128)	(5,948)	1,766	56.5%	2,820	47.4%
Depreciation and amortization	(405)	(1,239)	(2,653)	834	67.3%	1,414	53.3%
Total	$ 1,579	$ 4,129	$ 7,510	$ (2,550)	(61.8%)	$ (3,381)	(45.0%)

Income from operations of properties sold or held for sale decreased to $1.6 million in 2009 from $4.1 million in 2008 due to the sales of Sullyfield Center and The Earhart Building in 2008 and the sales of Avondale, Tech 100 Industrial Park, Brandywine Center and Crossroads Distribution Center in 2009.

Income from operations of properties sold or held for sale decreased to $4.1 million in 2008 from $7.5 million in 2007 due to the sale of Maryland Trade Center I & II in 2007 and the sales of Sullyfield Center and The Earhart Building in 2008.

Net Operating Income

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

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2009 Compared to 2008

The following tables of selected operating data provide the basis for our discussion of NOI in 2009 compared to 2008. All amounts are in thousands except percentage amounts.

	Years Ended December 31,			
	2009	**2008**	**$ Change**	**% Change**
Real Estate Rental Revenue				
Core	$ 269,655	$ 268,781	$ 874	0.3%
Non-core [1]	37,274	9,910	27,364	276.1%
Total real estate rental revenue	$ 306,929	$ 278,691	$ 28,238	10.1%
Real Estate Expenses				
Core	$ 90,047	$ 87,215	$ 2,832	3.2%
Non-core [1]	14,526	6,284	8,242	131.2%
Total real estate expenses	$ 104,573	$ 93,499	$ 11,074	11.8%
NOI				
Core	$ 179,608	$ 181,566	$ (1,958)	(1.1%)
Non-core [1]	22,748	3,626	19,122	527.4%
Total NOI	$ 202,356	$ 185,192	$ 17,164	9.3%
Reconciliation to Net Income				
NOI	$ 202,356	$ 185,192		
Other income	1,205	1,073		
Income from non-disposal activities	73	17		
Interest expense	(75,001)	(75,041)		
Depreciation and amortization	(94,042)	(85,659)		
General and administrative expenses	(13,906)	(12,110)		
Gain (loss) on extinguishment of debt	5,336	(5,583)		
Discontinued operations[2]	1,579	4,129		
Gain on sale of real estate	13,348	15,275		
Net income	40,948	27,293		
Less: Net income attributable to noncontrolling interests	(203)	(211)		
Net income attributable to the controlling interests	$ 40,745	$ 27,082		

Economic Occupancy	**2009**	**2008**
Core	93.0%	94.4%
Non-core [1]	90.6%	57.9%
Total	92.7%	92.3%

[1] Non-core properties include:

Multifamily development properties Clayborne Apartments and Bennett Park

Office development property	Dulles Station, Phase I
2009 acquisition	Lansdowne Medical Office Building
2008 acquisitions	6100 Columbia Park Road, Sterling Medical Office Building, Kenmore Apartments and 2445 M Street

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

2009 dispositions	Avondale, Tech 100 Industrial Park, Brandywine Center and Crossroads Distribution Center
2008 disposals	Sullyfield Center and The Earhart Building
2009 held for sale	Charleston

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Real estate rental revenue increased by $28.2 million in 2009 as compared to 2008 due primarily to the acquisition or placing into service of two office properties, one medical office property, three multifamily properties and one industrial property in 2009 and 2008, which added approximately 1.3 million square feet of net rentable space. These acquisition and development properties contributed $27.4 million of the increase. Real estate rental revenue from the core properties increased by $0.9 million primarily due to higher rental rates ($6.0 million) in all segments and higher lease termination fees ($0.4 million) in the retail and industrial segments, partially offset by lower core occupancy ($4.0 million) and higher bad debt expense ($1.8 million) in the commercial segments.

Real estate expenses increased by $11.1 million in 2009 as compared to 2008 due primarily to acquisition and development properties, which contributed $8.2 million of the increase. Real estate expenses from core properties increased by $2.8 million due primarily to higher real estate taxes ($1.4 million) caused by increased rates and assessments across the portfolio, higher snow removal costs ($1.3 million, not including any tenant reimbursements) caused by a severe snow storm in December 2009 and higher electricity costs ($0.6 million) caused by increased rates, partially offset by lower administrative expenses ($0.4 million).

Core economic occupancy decreased to 93.0% in 2009 from 94.4% in 2008, with the most severe decreases in the industrial and office segments. We believe this weakness in core occupancy is reflective of the national economic recession. Non-core economic occupancy increased to 90.6% in 2009 from 57.9% in 2008, driven by the completion of lease-up for our development properties in the office and multifamily segments. During 2009, 67.4% of the commercial square footage expiring was renewed as compared to 62.1% in 2008, excluding properties sold or classified as held for sale. During 2009, 1.4 million commercial square feet were leased at an average rental rate of $24.92 per square foot, an increase of 10.2%, with average tenant improvements and leasing costs of $13.95 per square foot. These leasing statistics exclude first generation leases at development properties.

An analysis of NOI by segment follows.

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Office Segment:

	Years Ended December 31,			
	2009	2008	$ Change	% Change
Real Estate Rental Revenue				
Core	$ 114,944	$ 115,685	$ (741)	(0.6%)
Non-core [(1)]	21,513	2,608	18,905	724.9%
Total real estate rental revenue	$ 136,457	$ 118,293	$ 18,164	15.4%
Real Estate Expenses				
Core	$ 41,462	$ 40,956	$ 506	1.2%
Non-core [(1)]	7,436	1,471	5,965	405.5%
Total real estate expenses	$ 48,898	$ 42,427	$ 6,471	15.3%
NOI				
Core	$ 73,482	$ 74,729	$ (1,247)	(1.7%)
Non-core [(1)]	14,077	1,137	12,940	1,138.1%
Total NOI	$ 87,559	$ 75,866	$ 11,693	15.4%

Economic Occupancy	**2009**	**2008**
Core	92.2%	93.9%
Non-core [(1)]	95.6%	73.2%
Total	92.6%	93.2%

(1) Non-core properties include:

Development property Dulles Station, Phase I

2008 acquisition 2445 M Street

Real estate rental revenue in the office segment increased by $18.2 million in 2009 as compared to 2008 due to acquisition and development properties, which contributed all of the increase. Real estate rental revenue from core properties decreased by $0.7 million primarily due to lower core occupancy ($2.1 million), lower recovery income ($0.8 million), higher bad debt ($1.3 million) and lower lease termination fees ($0.4 million), partially offset by higher rental rates ($3.6 million).

Real estate expenses in the office segment increased by $6.5 million in 2009 as compared to 2008 due primarily to acquisition and development properties, which contributed $6.0 million of the increase. Real estate expenses from core properties increased by $0.5 million primarily due to higher electricity costs ($0.3 million) caused by higher rates, higher snow removal costs ($0.2 million, not including any tenant reimbursements) caused by a severe snow storm in December 2009, and higher real estate taxes ($0.2 million) caused by higher rates and assessments. These were offset by lower property management payroll expense ($0.2 million) due to the elimination of several positions.

Core economic occupancy decreased to 92.2% in 2009 from 93.9% in 2008, driven by higher vacancy at One Central Plaza, 6565 Arlington Boulevard and 1220 19th Street. These were partially offset by higher economic occupancy at The Crescent and 600 Jefferson Plaza. Non-core economic occupancy increased to 95.6% from 73.2% due to the lease-up of Dulles Station, Phase I, a development property. During 2009, 59.8% of the square footage that expired was renewed compared to 41.9% in 2008, excluding properties sold or classified as held for sale. During 2009, we executed new leases for 683,800 square feet of office space at an average rental rate of $31.14 per square foot, an increase of 11.6%, with average tenant improvements and leasing costs of $20.14 per square foot. These leasing statistics exclude first generation leases at

the development property, Dulles Station, Phase I.

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Medical Office Segment:

	Years Ended December 31,			
	2009	2008	$ Change	% Change
Real Estate Rental Revenue				
Core	$ 44,251	$ 43,210	$ 1,041	2.4%
Non-core [(1)]	660	384	276	71.9%
Total real estate rental revenue	$ 44,911	$ 43,594	$ 1,317	3.0%
Real Estate Expenses				
Core	$ 14,674	$ 13,924	$ 750	5.4%
Non-core [(1)]	544	253	291	115.0%
Total real estate expenses	$ 15,218	$ 14,177	$ 1,041	7.3%
NOI				
Core	$ 29,577	$ 29,286	$ 291	1.0%
Non-core [(1)]	116	131	(15)	(11.5%)
Total NOI	$ 29,693	$ 29,417	$ 276	0.9%

Economic Occupancy	**2009**	**2008**
Core	96.6%	97.0%
Non-core [(1)]	50.4%	61.1%
Total	95.2%	96.5%

(1) Non-core properties include:

2009 acquisition Lansdowne Medical Office Building

2008 acquisition Sterling Medical Office Building

Real estate rental revenue in the medical office segment increased by $1.3 million in 2009 as compared to 2008 due primarily to higher rental rates ($1.1 million) and lower bad debt ($0.3 million) on the core properties, offset by higher core vacancy ($0.2 million). The 2008 acquisition of Sterling Medical Office Building contributed $0.3 million to the increase.

Real estate expenses in the medical office segment increased by $1.0 million in 2009 as compared to 2008 due primarily to higher real estate taxes ($0.3 million) caused by higher rates and assessments on the core portfolio, an increase to our reserve for straight-line receivables ($0.2 million) and higher snow removal costs ($0.2 million, not including any tenant reimbursements). The acquisition properties contributed $0.3 million to the increase.

Core economic occupancy decreased to 96.6% in 2009 from 97.0% in 2008, driven by higher vacancy at Woodburn I and 8301 Arlington Boulevard. Non-core economic occupancy decreased to 50.4% from 61.1% due to the acquisition of the vacant Lansdowne Medical Office Building during the third quarter of 2009. This building remains unleased as of the end of 2009. During 2009, 64.4% of the square footage that expired was renewed compared to 63.6% in 2008. During 2009, we executed new leases for 139,600 square feet of medical office space at an average rental rate of $36.80, an increase of 15.9%, with average tenant improvements and leasing costs of $24.28 per square foot.

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Retail Segment:

	Years Ended December 31,			
	2009	2008	$ Change	% Change
Real Estate Rental Revenue				
Total	$ 41,821	$ 40,987	$ 834	2.0%
Real Estate Expenses				
Total	$ 10,680	$ 9,647	$ 1,033	10.7%
NOI				
Total	$ 31,141	$ 31,340	$ (199)	(0.6%)

Economic Occupancy	2009	2008
Total	94.6%	94.9%

Real estate rental revenue in the retail segment increased by $0.8 million in 2009 as compared to 2008 due to higher rental rates ($0.9 million), higher lease termination fees ($0.3 million) and higher real estate tax reimbursements ($0.3 million), offset by higher bad debt ($0.7 million).

Real estate expenses in the retail segment increased by $1.0 million in 2009 as compared to 2008 due to higher legal fees ($0.5 million) related to litigation concerning the remediation of an environmental condition at Westminster Shopping Center and higher real estate taxes ($0.4 million) caused by higher rates and assessments.

Economic occupancy decreased to 94.6% in 2009 from 94.9% in 2008, driven by higher vacancy at the Centre at Hagerstown and Montrose Shopping Center. These were partially offset by lower vacancy at Foxchase Shopping Center and South Washington Street. During 2009, 52.2% of the square footage that expired was renewed compared to 91.5% in 2008. During 2009, we executed new leases for 145,900 square feet of retail space at an average rental rate of $17.60, a decrease of 0.4%, with average tenant improvements and leasing costs of $9.08 per square foot.

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Multifamily Segment:

	Years Ended December 31,			
	2009	2008	$ Change	% Change
Real Estate Rental Revenue				
Core	$ 32,909	$ 32,199	$ 710	2.2%
Non-core [(1)]	13,561	5,659	7,902	139.6%
Total real estate rental revenue	$ 46,470	$ 37,858	$ 8,612	22.7%
Real Estate Expenses				
Core	$ 13,382	$ 13,315	$ 67	0.5%
Non-core [(1)]	6,112	4,121	1,991	48.3%
Total real estate expenses	$ 19,494	$ 17,436	$ 2,058	11.8%
NOI				
Core	$ 19,527	$ 18,884	$ 643	3.4%
Non-core [(1)]	7,449	1,538	5,911	384.3%
Total NOI	$ 26,976	$ 20,422	$ 6,554	32.1%

Economic Occupancy	2009	2008
Core	93.3%	93.5%
Non-core [(1)]	87.3%	49.6%
Total	91.5%	83.0%

(1) Non-core properties include:

Development properties Clayborne Apartments and Bennett Park

2008 acquisition Kenmore Apartments

Real estate rental revenue in the multifamily segment increased by $8.6 million in 2009 as compared to 2008 due primarily to acquisition and development properties, which contributed $7.9 million of the increase. Real estate rental revenue from core properties increased by $0.7 million due primarily to lower rent abatements ($0.3 million) and higher utilities reimbursements ($0.3 million).

Real estate expenses in the multifamily segment increased by $2.1 million in 2009 as compared to 2008 due primarily to acquisition and development properties, which contributed $2.0 million of the increase. Real estate expenses from core properties increased by $0.1 million primarily due to higher snow removal costs, not including any tenant reimbursements, due to a severe snow storm in December 2009.

Core economic occupancy decreased to 93.3% in 2009 from 93.5% in 2008, driven by lower occupancy at Munson Hill Towers and Walker House. Non-core economic occupancy increased to 87.3% from 49.6%, reflecting the lease-up of Bennett Park and Clayborne Apartments.

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Industrial Segment:

	Years Ended December 31,			
	2009	2008	$ Change	% Change
Real Estate Rental Revenue				
Core	$ 35,730	$ 36,700	$ (970)	(2.6%)
Non-core [(1)]	1,540	1,259	281	22.3%
Total real estate rental revenue	$ 37,270	$ 37,959	$ (689)	(1.8%)
Real Estate Expenses				
Core	$ 9,849	$ 9,373	$ 476	5.1%
Non-core [(1)]	434	439	(5)	(1.1%)
Total real estate expenses	$ 10,283	$ 9,812	$ 471	4.8%
NOI				
Core	$ 25,881	$ 27,327	$ (1,446)	(5.3%)
Non-core [(1)]	1,106	820	286	34.9%
Total NOI	$ 26,987	$ 28,147	$ (1,160)	(4.1%)

Economic Occupancy	2009	2008
Core	89.2%	93.8%
Non-core [(1)]	100.0%	94.2%
Total	89.6%	93.8%

(1) Non-core properties include:
2008 acquisition 6100 Columbia Park Road

Real estate rental revenue in the industrial segment decreased by $0.7 million in 2009 as compared to 2008 due primarily to lower core occupancy ($1.5 million) and higher bad debt ($0.1 million), offset by higher lease termination fees ($0.4 million) and higher expense recoveries ($0.2 million). The 2008 acquisition of 6100 Columbia Park Road contributed $0.3 million of additional real estate revenue.

Real estate expenses in the industrial segment increased by $0.5 million in 2009 as compared to 2008 due primarily to higher snow removal costs ($0.5 million, not including any tenant reimbursements) caused by a severe snow storm in December 2009 and higher real estate taxes ($0.3 million) caused by higher rates and assessments. These were offset by higher recoveries of previously reserved bad debt ($0.2 million).

Core economic occupancy decreased to 89.2% in 2009 from 93.8% in 2008, driven by higher vacancy at 270 Tech Park, Ammendale Technology Park and NVIP I & II. Non-core economic occupancy increased to 100.0% from 94.2%, reflecting full occupancy at 6100 Columbia Park Road. During 2009, 81.0% of the square footage that expired was renewed compared to 62.0% in 2008, excluding properties sold or classified as held for sale. During 2009, we executed new leases for 453,400 square feet of industrial space at an average rental rate of $8.80, an increase of 3.2%, with average tenant improvements and leasing costs of $3.01 per square foot.

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2008 Compared to 2007

The following tables of selected operating data provide the basis for our discussion of NOI in 2008 compared to 2007. All amounts are in thousands except percentage amounts.

	Years Ended December 31,			
	2008	**2007**	**$ Change**	**% Change**
Real Estate Rental Revenue				
Core	$ 231,652	$ 229,565	$ 2,087	0.9%
Non-core [1]	47,039	19,334	27,705	143.3%
Total real estate rental revenue	$ 278,691	$ 248,899	$ 29,792	12.0%
Real Estate Expenses				
Core	$ 73,600	$ 70,546	$ 3,054	4.3%
Non-core [1]	19,899	6,813	13,086	192.1%
Total real estate expenses	$ 93,499	$ 77,359	$ 16,140	20.9%
NOI				
Core	$ 158,052	$ 159,019	$ (967)	(0.6%)
Non-core [1]	27,140	12,521	14,619	116.8%
Total NOI	$ 185,192	$ 171,540	$ 13,652	8.0%
Reconciliation to Net Income				
NOI	$ 185,192	$ 171,540		
Other income	1,073	1,875		
Income from non-disposal activities	17	1,303		
Interest expense	(75,041)	(66,336)		
Depreciation and amortization	(85,659)	(68,364)		
General and administrative expenses	(12,110)	(14,882)		
Loss on extinguishment of debt	(5,583)			
Discontinued operations[2]	4,129	7,510		
Gain on sale of real estate	15,275	25,022		
Net income	27,293	57,668		
Less: Net income attributable to noncontrolling interests	(211)	(217)		
Net income attributable to the controlling interests	$ 27,082	$ 57,451		

Economic Occupancy	**2008**	**2007**
Core	94.5%	94.7%
Non-core [1]	82.2%	92.6%
Total	92.3%	94.5%

[1] Non-core properties include:

Multifamily development properties Clayborne Apartments and Bennett Park

Office development property Dulles Station, Phase I

2008 office acquisition 2445 M Street

2008 medical office acquisition Sterling Medical Office Building

2008 multifamily acquisition Kenmore Apartments

2008 industrial acquisition 6100 Columbia Park Road

2007 office acquisitions Monument II, Woodholme Center and 2000 M Street

2007 medical office acquisitions 2440 M Street, Woodholme Medical Office Building, Ashburn Farm Office Park and CentreMed I & II

2007 industrial acquisition 270 Technology Park

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

Held for sale	Charleston Business Center
2009 dispositions	Avondale, Tech 100 Industrial Park, Brandywine Center and Crossroads Distribution Center
2008 disposals	Sullyfield Center and The Earhart Building
2007 disposals	Maryland Trade Center I and II

Real estate rental revenue increased by $29.8 million in 2008 as compared to 2007 due primarily to the acquisition or placing into service of five office properties, five medical office properties, three multifamily properties and two industrial properties in 2007 and 2008, which added approximately 2.3 million square feet of net rentable space. These acquisition and development properties contributed $27.7 million of the increase. Real estate rental revenue from the core properties increased by $2.1 million primarily due to higher rental rates in all segments ($2.9 million) and higher expense recoveries ($2.0 million), partially offset by higher provisions for bad debt ($2.4 million) and lower core occupancy ($0.6 million) in the commercial segments.

Real estate expenses increased by $16.1 million in 2008 as compared to 2007 due primarily to acquisition and development properties, which contributed $13.1 million of the increase. Real estate expenses from core properties increased by $3.1 million due primarily to higher real estate taxes ($2.2 million), administrative expenses ($0.5 million) and repairs and maintenance ($0.5 million).

Core economic occupancy decreased to 94.5% in 2008 from 94.7% in 2007 due to lower core economic occupancy in the commercial property segments, partially offset by higher core economic occupancy in the multifamily segment. Non-core economic occupancy decreased to 82.2% in 2008 from 92.6% in 2007, driven by the lease-up of our development properties in the office and multifamily segments. During 2008, 62.1% of the commercial square footage expiring was renewed as compared to 79.6% in 2007. During 2008, 1.5 million commercial square feet were leased at an average rental rate of $24.68 per square foot, an increase of 19.4%, with average tenant improvements and leasing costs of $13.36 per square foot. These leasing statistics do not include leases executed during 2008 for Dulles Station, Phase I, a development property.

An analysis of NOI by segment follows.

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Office Segment:

	Years Ended December 31,			
	2008	2007	$ Change	% Change
Real Estate Rental Revenue				
Core	$ 94,802	$ 93,810	$ 992	1.1%
Non-core [1]	23,491	8,177	15,314	187.3%
Total real estate rental revenue	$ 118,293	$ 101,987	$ 16,306	16.0%
Real Estate Expenses				
Core	$ 32,975	$ 31,927	$ 1,048	3.3%
Non-core [1]	9,452	2,641	6,811	257.9%
Total real estate expenses	$ 42,427	$ 34,568	$ 7,859	22.7%
NOI				
Core	$ 61,827	$ 61,883	$ (56)	(0.1%)
Non-core [1]	14,039	5,536	8,503	153.6%
Total NOI	$ 75,866	$ 67,419	$ 8,447	12.5%

Economic Occupancy	2008	2007
Core	93.9%	94.3%
Non-core [1]	90.4%	97.9%
Total	93.2%	94.6%

[1] Non-core properties include:
2008 in development Dulles Station

2008 acquisition 2445 M Street

2007 acquisitions Monument II, Woodholme Center and 2000 M Street

Real estate rental revenue in the office segment increased by $16.3 million in 2008 as compared to 2007 due primarily to acquisition and development properties, which contributed $15.3 million of the increase. Real estate rental revenue from core properties increased by $1.0 million primarily due to higher rental rates ($1.1 million), lease termination fees ($0.6 million) and expense recoveries ($0.4 million), offset by lower core occupancy ($0.5 million) and higher bad debt ($0.5 million).

Real estate expenses in the office segment increased by $7.9 million in 2008 as compared to 2007 due primarily to acquisition and development properties, which contributed $6.8 million of the increase. Real estate expenses from core properties increased by $1.1 million primarily due to higher real estate taxes ($0.7 million) caused by higher rates and assessments, as well as higher repairs and maintenance expense ($0.4 million).

Core economic occupancy decreased to 93.9% in 2008 from 94.3% in 2007, driven by higher vacancy at One Central Plaza, 600 Jefferson Plaza and the Lexington. These were partially offset by higher economic occupancy at West Gude Drive, Wayne Plaza and 7900 Westpark. Non-core economic occupancy decreased to 90.4% from 97.9% due to the lease-up of Dulles Station, Phase I, a development property, as well as lower occupancy at 2000 M Street. During 2008, 41.9% of the square footage that expired was renewed compared to 82.1% in 2007, excluding properties sold or classified as held for sale. During 2008, we executed new leases for 567,700 square feet of office space at an average rental rate of $32.46 per square foot, an increase of 16.5%, with average tenant improvements and leasing costs of $20.90 per square foot. These

leasing statistics do not include leases executed during 2008 for Dulles Station, Phase I, a development property.

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Medical Office Segment:

	Years Ended December 31,			
	2008	**2007**	**$ Change**	**% Change**
Real Estate Rental Revenue				
Core	$ 29,510	$ 29,314	$ 196	0.7%
Non-core [1]	14,084	8,533	5,551	65.1%
Total real estate rental revenue	$ 43,594	$ 37,847	$ 5,747	15.2%
Real Estate Expenses				
Core	$ 8,897	$ 8,654	$ 243	2.8