WASHINGTON REAL ESTATE INVESTMENT TRUST
Form 10-Q
May 01, 2018

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

FORM 10-Q

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x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For quarterly period ended March 31, 2018
OR
o 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)

1775 EYE STREET, NW, SUITE 1000, WASHINGTON, DC 20006
(Address of principal executive office) (Zip code)
Registrant's telephone number, including area code: (202) 774-3200

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

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

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

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES x NO o
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 x NO o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

As of April 26, 2018, 78,637,643 common shares were outstanding.

WASHINGTON REAL ESTATE INVESTMENT TRUST
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PART I
FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

The information furnished in the accompanying unaudited Consolidated Balance Sheets, Condensed Consolidated Statements of Income, Condensed Consolidated Statements of Comprehensive Income, Consolidated Statement of Equity and Consolidated Statements of Cash Flows reflects all adjustments, consisting of normal recurring items, which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods. The accompanying financial statements and notes thereto should be read in conjunction with the financial statements and notes for the three years ended December 31, 2017 included in Washington Real Estate Investment Trust’s 2017 Annual Report on Form 10-K.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	March 31, 2018 (Unaudited)	December 31, 2017
Assets		
Land	$614,659	$588,025
Income producing property	2,211,529	2,113,977
	2,826,188	2,702,002
Accumulated depreciation and amortization	(698,450)	(683,692)
Net income producing property	2,127,738	2,018,310
Properties under development or held for future development	61,712	54,422
Total real estate held for investment, net	2,189,450	2,072,732
Investment in real estate sold or held for sale, net	93,048	68,534
Cash and cash equivalents	11,510	9,847
Restricted cash	2,469	2,776
Rents and other receivables, net of allowance for doubtful accounts of $2,539 and $2,426, respectively	71,499	69,766
Prepaid expenses and other assets	148,088	125,087
Other assets related to properties sold or held for sale	2,231	10,684
Total assets	$2,518,295	$2,359,426
Liabilities		
Notes payable, net	$994,425	$894,358
Mortgage notes payable, net	93,991	95,141
Lines of credit	260,000	166,000
Accounts payable and other liabilities	64,823	61,565
Dividend payable	—	23,581
Advance rents	12,441	12,487
Tenant security deposits	9,466	9,149
Liabilities related to properties sold or held for sale	2,385	1,809
Total liabilities	1,437,531	1,264,090
Equity		
Shareholders’ equity		
Preferred shares; $0.01 par value; 10,000 shares authorized; no shares issued or outstanding	—	—
Shares of beneficial interest, $0.01 par value; 100,000 shares authorized; 78,636 and 78,510 shares issued and outstanding, respectively	786	785
Additional paid in capital	1,485,765	1,483,980
Distributions in excess of net income	(419,633)	(399,213)
Accumulated other comprehensive income	13,484	9,419
Total shareholders’ equity	1,080,402	1,094,971
Noncontrolling interests in subsidiaries	362	365
Total equity	1,080,764	1,095,336
Total liabilities and equity	$2,518,295	$2,359,426

See accompanying notes to the consolidated financial statements.

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WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	Three Months Ended March 31,	
	2018	2017
Revenue		
Real estate rental revenue	$84,881	$77,501
Expenses		
Real estate expenses	29,901	27,863
Depreciation and amortization	29,969	26,069
General and administrative	5,821	5,626
Real estate impairment	1,886	—
	67,577	59,558
Real estate operating income	17,304	17,943
Other (expense) income		
Interest expense	(12,827)	(11,405)
Loss on extinguishment of debt	(1,178)	—
Other income	—	77
	(14,005)	(11,328)
Net income	3,299	6,615
Less: Net loss attributable to noncontrolling interests in subsidiaries	—	19
Net income attributable to the controlling interests	$3,299	$6,634
Basic net income attributable to the controlling interests per common share	$0.04	$0.09
Diluted net income attributable to the controlling interests per common share	$0.04	$0.09
Weighted average shares outstanding – basic	78,483	74,854
Weighted average shares outstanding – diluted	78,547	74,966
Dividends declared per share	$0.30	$0.30

See accompanying notes to the consolidated financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(IN THOUSANDS)
(UNAUDITED)

	Three Months Ended March 31,	
	2018	2017
Net income	$3,299	$6,615
Other comprehensive income:		
Unrealized gain on interest rate hedges	4,065	735
Comprehensive income	7,364	7,350
Less: Comprehensive loss attributable to noncontrolling interests	—	19
Comprehensive income attributable to the controlling interests	$7,364	$7,369

See accompanying notes to the consolidated financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EQUITY
(IN THOUSANDS)
(UNAUDITED)

	Shares Issued and Out-standing	Shares of Beneficial Interest at Par Value	Additional Paid in Capital	Distributions in Excess of Net Income	Accumulated Other Comprehensive Income	Total Shareholders' Equity	Noncontrolling Interests in Subsidiaries	Total Equity
Balance, December 31, 2017	78,510	$ 785	$ 1,483,980	$ (399,213)	$ 9,419	$ 1,094,971	$ 365	$ 1,095,336
Net income attributable to the controlling interests	—	—	—	3,299	—	3,299	—	3,299
Unrealized gain on interest rate hedges	—	—	—	—	4,065	4,065	—	4,065
Distributions to noncontrolling interests	—	—	—	—	—	—	(3)	(3)
Dividends	—	—	—	(23,719)	—	(23,719)	—	(23,719)
Shares issued under dividend reinvestment program	37	—	717	—	—	717	—	717
Share grants, net of forfeitures and tax withholdings	89	1	1,068	—	—	1,069	—	1,069
Balance, March 31, 2018	78,636	$ 786	$ 1,485,765	$ (419,633)	$ 13,484	$ 1,080,402	$ 362	$ 1,080,764

See accompanying notes to the consolidated financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	Three Months Ended March 31, 2018	2017
Cash flows from operating activities		
Net income	$ 3,299	$ 6,615
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,969	26,069
Provision for losses on accounts receivable	176	183
Real estate impairment	1,886	—
Share-based compensation expense	1,541	1,147
Amortization of debt premiums, discounts and related financing costs	446	477
Loss on extinguishment of debt	1,178	—
Changes in operating other assets	(1,374)	(7,261)
Changes in operating other liabilities	(475)	3,469
Net cash provided by operating activities	36,646	30,699
Cash flows from investing activities		
Real estate acquisitions, net	(106,400)	—
Net cash received for sale of real estate	78,483	—
Capital improvements to real estate	(7,845)	(11,436)
Development in progress	(4,754)	(2,517)
Real estate deposits, net	—	(5,000)
Non-real estate capital improvements	(172)	(575)
Net cash used in investing activities	(40,688)	(19,528)

Cash flows from financing activities		
Line of credit borrowings, net	94,000	3,000
Dividends paid	(47,300)	(45,021)
Principal payments – mortgage notes payable	(136,309)	(50,346)
Repayments of unsecured term loan debt	(150,000)	—
Proceeds from term loan	250,000	50,000
Payment of financing costs	(5,411)	(234)
Distributions to noncontrolling interests	(3)	(36)
Proceeds from dividend reinvestment program	717	1,114
Net proceeds from equity issuances	—	29,959
Payment of tax withholdings for restricted share awards	(296)	(585)
Net cash provided by (used in) financing activities	5,398	(12,149)
Net increase (decrease) in cash, cash equivalents and restricted cash	1,356	(978)
Cash, cash equivalents and restricted cash at beginning of period	12,623	17,622
Cash, cash equivalents and restricted cash at end of period	$ 13,979	$ 16,644

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities		
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	$7,416	$5,916
Change in accrued capital improvements and development costs	2,675	438
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	$11,510	$15,214
Restricted cash	2,469	1,430
Cash, cash equivalents and restricted cash	$13,979	$16,644

See accompanying notes to the consolidated financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018
(UNAUDITED)

NOTE 1: NATURE OF BUSINESS

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

Federal Income Taxes

We believe that we qualify as a real estate investment trust (“REIT”) under Sections 856-860 of the Internal Revenue Code of 1986, as amended (the "Code"), and intend to continue to qualify as such. We have considered the provisions of the Tax Cuts and Jobs Act (the "TCJA"), which was signed into law on December 22, 2017 and which generally takes effect for taxable years beginning on or after January 1, 2018, and do not expect the TCJA to have a material impact on our ability to continue to qualify as a REIT. To maintain our status as a REIT, we are, among other things, required to distribute 90% of our REIT taxable income (which is, generally, our ordinary taxable income, with certain modifications), excluding any net capital gains and any deductions for dividends paid to our shareholders on an annual basis. When selling a property, we generally have the option of (a) reinvesting the sales proceeds of property sold, in a way that allows us to defer recognition of some or all taxable gain realized on the sale, (b) distributing gains to the shareholders with no tax to us or (c) treating net long-term 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. During 2018, we sold our interests in Braddock Metro Center, a 356,000 square foot office property in Alexandria, Virginia (see note 3).

Generally, and subject to our ongoing qualification as a REIT, no provisions for income taxes are necessary except for taxes on undistributed taxable income and taxes on the income generated by our taxable REIT subsidiaries (“TRSs”). Our TRSs are subject to corporate federal and state income tax on their taxable income at regular statutory rates, or as calculated under the alternative minimum tax, as appropriate. As of both March 31, 2018 and December 31, 2017, our TRSs had a deferred tax asset of $1.4 million that was fully reserved. As of both March 31, 2018 and December 31, 2017, we had a deferred state and local tax liability of $0.6 million. This deferred tax liability is primarily related to temporary differences in the timing of the recognition of revenue, amortization and depreciation.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATIONS

Significant Accounting Policies

We have prepared our consolidated financial statements using the accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2017.

Pronouncements Adopted

In August 2017, the Financial Accounting Standards Board (”FASB”) issued Accounting Standards Update (“ASU”) 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities. The purpose of this updated guidance is to better align a company’s financial reporting for hedging activities with the economic objectives of those activities. The transition guidance provides companies with the option of early adopting the new standard using a modified retrospective transition method in any interim period after issuance of the update, or alternatively requires adoption for fiscal years beginning after December 15, 2018. We adopted the new standard as of January 1, 2018 and adoption did not have a material impact on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718) - Scope of Modification Accounting, which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The new standard is effective for all entities for fiscal years beginning after December 15, 2017 and for interim periods therein, with early adoption permitted. We adopted the new standard as of January 1, 2018 and adoption did not have a material impact on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments, which provides specific guidance on how cash receipts and payments should be presented and classified in the statement of cash flows for eight specific issues. The new standard is effective for public entities for fiscal years beginning after December 15, 2017 and for interim periods therein, with early adoption permitted. We adopted the new standard as of January 1, 2018 and adoption did not have a material impact on our consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Liabilities, which eliminates the requirement for public entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. The new standard is effective for public entities for fiscal years beginning after December 15, 2017 and for interim periods therein. We adopted the new standard as of January 1, 2018 and adoption did not have a material impact on our consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”), which creates a single source of revenue guidance. The new standard provides accounting guidance for all revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers (unless the contracts are in the scope of other U.S. generally accepted accounting principles (“GAAP”) requirements, such as the leasing literature). The guidance also provides a model for the measurement and recognition of gains and losses on the sale of certain nonfinancial assets, such as property and equipment, including real estate. The new standard is effective for public entities for fiscal years beginning after December 15, 2017 and for interim periods therein. We adopted the new standard for the fiscal year beginning on January 1, 2018. We evaluated the requirements for recognition of revenue from contracts with customers and measuring gains and losses on the sale of properties in accordance with ASU 2014-09 and concluded that adoption of the new standard did not impact the amount or timing of our revenue recognition.

Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (“ASU 2016-02”), which amends existing accounting standards for lease accounting, including by requiring lessees to recognize most leases on the balance sheet and making certain changes to lessor accounting. The new standard is effective for public entities for fiscal years beginning after December 15, 2018 and for interim periods therein with early adoption permitted. Upon adoption, for leases in which we are the lessor, the lease contract will be separated into lease and non-lease components in accordance with the provisions outlined within ASU No. 2014-09. We currently expect to be able to use a practical expedient tentatively approved by the FASB that would allow us to account for the combined lease and non-lease components under the new leasing standard. For lease contracts with a duration of more than one year in which we are the lessee, the present value of future lease payments will be recognized on our balance sheet as a right-of-use asset and a corresponding lease liability. Also, only direct leasing costs may be capitalized under the new standard, while current accounting standards allow for the capitalization of indirect leasing costs. We are currently evaluating the impact ASU 2016-02 may have on Washington REIT’s consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments, which requires financial assets measured at an amortized cost basis, including trade receivables, to be presented at the net amount expected to be collected. The new standard is effective for public entities for fiscal years beginning after December 15, 2019 and for interim periods therein with adoption one year earlier permitted. We are currently evaluating the impact the new standard may have on Washington REIT’s consolidated financial statements.

Principles of Consolidation and Basis of Presentation

The accompanying unaudited consolidated financial statements include the consolidated accounts of Washington REIT, our majority-owned subsidiaries and entities in which Washington REIT has a controlling interest. All intercompany balances and transactions have been eliminated in consolidation.

We have prepared the accompanying unaudited financial statements pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures made are adequate to make the information presented not misleading. In addition, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for the periods presented have been included. These unaudited financial statements should be read in conjunction with the financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Within these notes to the financial statements, we refer to the three months ended March 31, 2018 and March 31, 2017 as the "2018 Quarter" and the "2017 Quarter," respectively.

Use of Estimates in the Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3: REAL ESTATE

Acquisition

Our current strategy includes recycling legacy assets that lack the income growth potential we seek and to invest in high-quality assets with compelling value-add returns through redevelopment opportunities in our existing portfolio and acquisitions that meet our stringent investment criteria. We focus on properties inside the Washington metro region's Beltway, near major transportation nodes and in areas with strong employment drivers and superior growth demographics. We acquired the following property during the 2018 Quarter (the "2018 acquisition"):

Acquisition Date	Property	Type	Net Rentable Square Feet	Contract Purchase Price (In thousands)
January 18, 2018	Arlington Tower	Office	396,000	$ 250,000

The results of operations from the 2018 acquisition are included in the consolidated statements of income from the acquisition date and are as follows (in thousands):

	Three Months Ended March 31, 2018
Real estate rental revenue	$ 4,635
Net income	640

We accounted for the 2018 acquisition as an asset acquisition. Accordingly, we capitalized $0.6 million of costs directly associated with the acquisition. We measured the value of the acquired physical assets (land and building), in-place leases (tenant origination costs, leasing commissions, absorption costs and lease intangible assets/liabilities), and any other liabilities by allocating the total cost of the acquisition on a relative fair value basis.

We have recorded the total cost of the 2018 acquisition as follows (in thousands):

Land	$ 63,970
Building	142,900
Tenant origination costs	13,625
Leasing commissions/absorption costs	27,465
Lease intangible assets	3,142
Lease intangible liabilities	(545)
Total	$ 250,557

The weighted remaining average life for the 2018 acquisition components above, other than land and building, are 83 months for tenant origination costs, 72 months for leasing commissions/absorption costs, 75 months for net lease intangible assets and 88 months for net lease intangible liabilities.

The difference in the total contract purchase price of $250.0 million for the 2018 acquisition and cash paid for the acquisition per the consolidated statements of cash flows of $106.4 million is primarily due to a mortgage note repaid at settlement ($135.5 million), an acquisition deposit made during 2017 ($6.3 million) and a net credit to the buyer for certain expenditures ($1.8 million).

Development/Redevelopment

We have properties under development/redevelopment and held for current or future development as of March 31, 2018.

In the multifamily segment, we have The Trove, a multifamily development adjacent to The Wellington, and own land held for future multifamily development adjacent to Riverside Apartments. As of March 31, 2018, we had invested $36.1 million and $20.3 million, including the costs of acquired land, in The Trove and the development adjacent to Riverside Apartments, respectively.

In the retail segment, we currently have a redevelopment project to add rentable space at Spring Valley Village. As of March 31, 2018, we had invested $5.1 million in the redevelopment.

Properties Sold and Held for Sale

We intend to hold our properties for investment with a view to long-term appreciation, to engage in the business of acquiring, developing and owning our properties, and to make occasional sales of the properties 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. Depreciation on these properties is discontinued when classified as held for sale, but operating revenues, other operating expenses and interest continue to be recognized until the date of sale.

We sold our interests in the following properties in 2018 and 2017:

Disposition Date	Property Name	Segment	Rentable Square Feet/ Number of Units	Contract Sales Price (in thousands)	Gain on Sale (in thousands)
January 19, 2018	Braddock Metro Center	Office	356,000	$ 93,000	$ —
October 23, 2017	Walker House Apartments	Multifamily	212	$ 32,200	$ 23,838

We have fully transferred control of the assets associated with these disposed properties.

During the 2018 Quarter, we sold Braddock Metro Center, a 356,000 square foot office property in Alexandria, Virginia, for a contract sale price of $93.0 million. Due to the negotiations to sell the property, we evaluated Braddock Metro Center for impairment and recognized a $9.1 million impairment charge during 2017 in order to reduce the carrying value of the property to its estimated fair value, less selling costs. We based this fair valuation on the expected sale price from a potential sale. There are few observable market transactions for similar properties. This fair valuation falls into Level 2 of the fair value hierarchy due to its reliance on a quoted price in a market that is not active.

On January 23, 2018, we executed a purchase and sale agreement to sell 2445 M Street, a 292,000 square foot office property in Washington, DC, for a contract sale price of $100.0 million. We anticipate settlement during 2018. During 2017, we evaluated 2445 M Street for impairment and recognized a $24.1 million impairment charge in order to reduce the carrying value of the property to its estimated fair value. Upon execution of the purchase and sale agreement, the property met the criteria for classification as held for sale. Due to the property's classification as held for sale during the 2018 Quarter, we recorded an additional impairment charge of $1.9 million in the 2018 Quarter in order to reduce the carrying value of the property to its estimated fair value, less estimated selling costs. We based this fair valuation on the expected sale price from a potential sale. There are few observable market transactions for similar properties. This fair valuation falls into Level 2 of the fair value hierarchy due to its reliance on a quoted price in a market that is not active.

NOTE 4: UNSECURED LINES OF CREDIT PAYABLE

During the 2018 Quarter, we entered into an amended and restated credit agreement (“Credit Agreement”) which provides for a $700.0 million unsecured revolving credit facility (“Revolving Credit Facility”), the continuation of an existing $150.0 million unsecured term loan (“2015 Term Loan”) and an additional $250.0 million unsecured term loan (“2018 Term Loan”). The Revolving Credit Facility has a four-year term ending in March 2022, with two six-month extension options, and expands our prior $600.0 million unsecured revolving credit facility that was set to expire in June 2019. The Credit Agreement has an accordion feature that allows us to increase the aggregate facility to $1.5 billion, subject to the extent lenders agree to provide additional revolving loan commitments or term loans.

The Revolving Credit Facility bears interest at a rate of either one month LIBOR plus a margin ranging from 0.775% to 1.55% or the base rate plus a margin ranging from 0.0% to 0.55% (in each case depending upon Washington REIT's credit rating). The base rate is the highest of the administrative agent's prime rate, the federal funds rate plus 0.50% and the LIBOR market index rate plus 1.0%. In addition, the Revolving Credit Facility requires the payment of a facility fee ranging from 0.10% to 0.30% (depending on Washington REIT's credit rating) on the $700.0 million committed revolving loan capacity, without regard to usage. As of March 31, 2018, the interest rate on the Revolving Credit Facility is one month LIBOR plus 1.00%, the one month LIBOR is 1.88% and the facility fee is 0.20%.

The 2018 Term Loan increases and replaces the $150.0 million unsecured term loan, initially incurred on July 22, 2016 ("2016 Term Loan"), that was set to mature in July 2023. The 2018 Term Loan matures in July 2023 and bears interest at a rate of either one month LIBOR plus a margin ranging from 0.85% to 1.75% or the base rate plus a margin ranging from 0.0% to 0.75% (in each case depending upon Washington REIT's credit rating). As of March 31, 2018, the interest rate of the 2016 Term Loan is one month LIBOR plus 110 basis points. We used the $100.0 million of additional proceeds from the 2018 Term Loan primarily to repay outstanding borrowings on the Revolving Credit Facility.

We had previously used interest rate derivatives to effectively fix the interest rate of the 2016 Term Loan. These interest rate derivatives now effectively fix the interest rate on a $150.0 million portion of the 2018 Term Loan at 2.31%. We also have entered into forward interest rate derivatives commencing June 29, 2018 to effectively fix the interest rate on the remaining $100.0 million of the 2018 Term Loan at 3.71%.

The amount of the Revolving Credit Facility's unsecured line of credit unused and available at March 31, 2018 is as follows (in thousands):

Committed capacity	$700,000
Borrowings outstanding	(260,000)
Unused and available	$440,000

We executed borrowings and repayments on the Revolving Credit Facility during the 2018 Quarter as follows (in thousands):

Balance at December 31, 2017	$166,000
Borrowings	290,000
Repayments	(196,000)
Balance at March 31, 2018	$260,000

NOTE 5: DERIVATIVE INSTRUMENTS

On September 15, 2015, we entered into two interest rate swap arrangements with a total notional amount of $150.0 million to swap the floating interest rate under the 2015 Term Loan (see note 4) to an all-in fixed interest rate of 2.72% starting on October 15, 2015 and extending until the maturity of the 2015 Term Loan on March 15, 2021.

On July 22, 2016, we entered into two forward interest rate swap arrangements with a total notional amount of $150.0 million to swap the floating interest rate under the 2016 Term Loan to an all-in fixed interest rate of 2.86% starting on March 31, 2017 and extending until the maturity of the 2016 Term Loan on July 21, 2023. On March 29, 2018, we entered into the 2018 Term Loan, a $250.0 million floating interest rate term loan maturing on July 21, 2023, which increased and replaced the 2016 Term Loan. The interest rate swap arrangements that had effectively fixed the 2016 Term Loan now effectively fix the interest rate on $150.0 million of the 2018 Term Loan at 2.31%. On March 29, 2018, we entered into four forward interest rate swap arrangements with a total notional amount of $100.0 million to effectively fix the interest rate on the remaining $100.0 million of the 2018 Term Loan at 3.71%, starting on June 29, 2018 and extending until the maturity of the 2018 Term Loan on July 21, 2023.

The interest rate swaps qualify as cash flow hedges and are recorded at fair value in accordance with GAAP, based on discounted cash flow methodologies and observable inputs. We record the total change in fair value of the interest rate swap arrangements associated with our cash flow hedges in other comprehensive income. The resulting unrealized gain (loss) of the cash flow hedges was the only activity in other comprehensive income during the periods presented in our consolidated financial statements. We assess the effectiveness of our cash flow hedges both at inception and on an ongoing basis. The cash flow hedges were effective for the 2018 Quarter and 2017 Quarter.

The fair values of the interest rate swaps as of March 31, 2018 and December 31, 2017, are as follows (in thousands):

				Fair Value			
				Asset Derivatives		Liability Derivatives	
Derivative Instrument	Aggregate Notional Amount	Effective Date	Maturity Date	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Interest rate swaps	$ 150,000	October 15, 2015	March 15, 2021	$ 3,531	$ 1,987	$ —	$ —
Interest rate swaps	150,000	March 31, 2017	July 21, 2023	10,085	7,432	—	—
Interest rate swaps	100,000	June 29, 2018	July 21, 2023	—	—	(132)	—
	$ 400,000			$ 13,616	$ 9,419	$ (132)	$ —

We record interest rate swaps on our consolidated balance sheets with prepaid expenses and other assets when in a net asset position and with accounts payable and other liabilities when in a net liability position. The interest rate swaps have been effective since inception. The net gains or losses on the effective swaps are recognized in other comprehensive income, as follows (in thousands):

Three Months Ended March 31,