

***Transcript of
Washington REIT
First Quarter 2019 Earnings Conference Call
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Participants

Tejal Engman - Vice President of Investor Relations
Paul McDermott – President and Chief Executive Officer
Steve Riffie - Executive Vice President, Chief Financial Officer

Analysts

John Guinee – Stifel
Blaine Heck – Wells Fargo
Daniel Ismail – Green Street Advisors
Chris Lucas - Capital One Securities

Presentation

Operator

Welcome to the Washington Real Estate Investment Trust first quarter 2019 Earnings Conference Call. As a reminder, today's call is being recorded. Before turning over the call to the company's President and Chief Executive Officer, Paul McDermott, Tejal Engman, Vice President of Investor Relations will provide some introductory information. Ms. Engman, please go ahead.

Tejal Engman - Vice President of Investor Relations

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

Please also note that some statements during this call are forward-looking statements within the Private Securities Litigation Reform Act. Forward-looking statements in the earnings press release, along with our remarks, are made as of today, and we undertake no duty to update them as actual events unfold. Such statements involve known and unknown risks, uncertainties, and other factors that may cause actual results to differ materially. We refer to certain of these risks in our SEC filings. Please refer to pages 8 – 25 of our Form 10-K for our complete risk factor disclosure.

Participating in today's call with me will be Paul McDermott, President and Chief Executive Officer; Steve Riffie, Executive Vice President and Chief Financial Officer; and Drew Hammond, Vice President Chief Accounting Officer and Treasurer. Now, I'd like to turn the call over to Paul.

Paul McDermott - President & Chief Executive Officer

Thank you Tejal and good morning everyone. Thanks for joining us on our first quarter 2019 earnings conference call.

Introduction: While the focus of today's call will be the transformative strategic capital allocation we announced on April 2, let me begin with a quick summary of our three biggest first-quarter achievements. First, we signed new leases for 90,000 SF of office, including 51,000 SF at Watergate 600 in Washington, DC, for a term of nearly 18 years with rent commencement expected in early 2020. Second, we leased nearly 50,000 SF of challenging retail vacancies and achieved 80 basis points of year-over-year ending occupancy gains driven by new lease commencements in our retail portfolio. And third, we grew our multifamily same-store NOI by 4.4% year-over-year by driving very strong renewal tradeouts while maintaining average occupancy at 95.4%. The \$0.44 of Core FFO we generated in the first quarter was driven by our solid internal growth momentum with almost 3% GAAP and 3.8% cash same-store NOI growth.

Moreover, we signed leases this month for both the 28,000 SF former hhgregg vacancy at Hagerstown and the 23,000 SF former hhgregg vacancy at Frederick Crossing and expect rent commencement on both spaces in the first half of 2020. We are pleased to have made solid progress on our 2019 commercial leasing goals in the first four months of the year and to have delivered a strong operational performance in the first quarter.

Let me now move on to the planned Class B value-add multifamily portfolio acquisition, which we will be branding "Assembly," and our planned commercial dispositions. First, I would like to discuss why this is a transformative strategic capital allocation for Washington REIT and outline the long-term objectives we expect to accomplish with these transactions. I would then like to share our research-based outlook on the acquisition portfolio and its submarkets. Steve will follow on with the deal timing and provide further details on first quarter leasing and financials.

2019 Capital Allocation: Beginning with capital allocation, these transactions are transformative in that they significantly further scale our strategic allocation out of commercial and into multifamily and have a large positive impact on the long-term stability of WashREIT's cash flows. From 2013 to 2018, WashREIT net acquired \$406 million of multifamily assets and net sold \$383 million of commercial assets. Growing multifamily from 16% of our NOI in the first quarter of 2013 to 28% as of March 31 has reduced our leasing and recurring capital expenditures by nearly 30% and has significantly de-risked our portfolio. We believe that acquiring seven additional value-add multifamily assets and selling a proportionate amount of commercial assets will materially de-risk our cash flows further while growing FAD and improving our risk-adjusted returns.

2019 Acquisition Strategy: Starting with the Assembly portfolio we are acquiring, let me begin by saying that this is the first portfolio our research-led team has liked enough for us to pursue since we acquired Riverside Apartments. We have passed on numerous value-add opportunities where our research agreed with the "add" in terms of capex required, but couldn't get to the same value, i.e. the return on investment assumed by sellers. We have and will continue to remain thoughtful and disciplined in our underwriting. We are excited about this portfolio because it enables us to capitalize on macro housing affordability and demographic trends in the Washington Metro region while driving asset-level returns through unit renovations and improved property management.

Multifamily Acquisition thesis: Affordability continues to be the biggest issue in DC Metro multifamily. This is because the largest cohort of renter households in the DC Metro region, who comprise 35% of all market rate renters, earn approximately \$50,000 to \$80,000 per year. At a 30% outlay, this growing renter demographic generates robust demand for units with average monthly rents between \$1,250 to \$2,000, a price range that broadly matches both Class B suburban and urban in-fill multifamily rents in our region. Class A product remains well beyond these households' reach. 99% of the multifamily units currently under construction in the Washington Metro region require annual incomes greater than \$75,000 and 81% require annual incomes greater than \$100,000, according to CoStar research. We find that demand from this value-conscious renter is already surpassing the available supply of well-located Class B suburban and urban in-fill multifamily and our research expects this demand to grow.

As a result, our existing multifamily portfolio has delivered strong revenue growth over the past three years. The rents in our existing Class B portfolio are now averaging approximately \$1,700 a month and are expected to continue to grow as Class A urban in-fill effective rents were above \$2,500 a month in the first quarter. The Assembly portfolio's average monthly rent of \$1,500 enables us to tap into the value-conscious renter for whom urban infill rentals and suburban home ownership are both beyond reach and who is looking for more affordable, yet well-located, quality rental housing.

In addition to affordability, as millennials age the population of 35-44 year olds in the Washington Metro region is expected to grow by 400% per year for the next five years according to ESRI data. Home ownership rates in our region, however, have been declining. As of the fourth quarter of 2018, DC Metro homeownership was at 62.1%, 180 basis points lower than the average home ownership rate in the 75 largest Metros in the nation.

As a result, the 35 to 44 year old renter cohort in our region is projected to grow from 29% to 70% of new rental households over the next eight years. As value-conscious renters age, we believe that in addition to affordability, lifestyle preferences will continue to draw them to Class B suburban rental housing where unit sizes are 15% larger on average, school districts are better, there is good access to large employment concentrations by Metro and major regional highways, and great embedded retail infrastructure. Notably, the acquisition portfolio's average lessee age of 37 years coupled with its affordable rental price point directly addresses the growing demand from these older, value-conscious renters and will benefit from the strong population growth that is forecast for this demographic.

Moving on to the real estate. As many of you know, a core tenet of WashREIT's portfolio transformation has been to urbanize our portfolio and all of this management team's acquisitions have thus far been in urban-infill locations. Urbanization continues to be the cornerstone of our commercial portfolio strategy. For multifamily, however, the DC Metro region benefits from being one of the few markets with a high concentration of urban walkable communities that are spread throughout its suburbs. Our region ranks second in the nation for its high levels of walkable urbanism and has half of its urban nodes located in suburban jurisdictions, according to the Walkable Urbanism Rankings published by The George Washington University School of Business. Having easy access to urban nodes, such as Reston Town Center, Tysons, Rockville Town Center and Old Town Alexandria, is what makes suburban living in the DC Metro region a far richer experience than it is in most other gateway markets where urbanism is more concentrated in one downtown area.

Moreover, over the next five years, 73% of our region's household growth is expected to occur in the suburbs according to ESRI data. We therefore believe a dual suburban and urban in-fill multifamily strategy can be very successful in the DC Metro region and this is evidenced in the numbers. Class B rent growth in the acquisition portfolio's suburban submarkets has outperformed Class B rent growth for the region over the near and long term.

Acquisition Portfolio Details: With regards to the acquisition portfolio, Assembly is a portfolio of seven well-located garden-style multifamily assets. Each property is within a 30-minute commuting distance to strong regional job center where job concentrations range from 300,000 to 1.3 million jobs per center. The Assembly has 80% of its footprint in Northern Virginia and 20% in Montgomery County, Maryland. 25% of the portfolio is located in Alexandria, adjacent to the future Landmark Mall redevelopment and Inova Alexandria hospital, and a 10-minute drive to Amazon HQ2 and downtown Washington, DC. Almost 30% of the portfolio is located in the heart of the Dulles Tech corridor, where Amazon Web Services already has a substantial and growing presence, and it is minutes from the future innovation center and Herndon Metro station. 20% is located in Montgomery County, Maryland, with 218 units located in Germantown, across the street from Montgomery College, half a mile from the Department of Energy, and in the heart of the I-270 DNA alley. This is a 15-mile stretch that runs from Bethesda to Gaithersburg and houses the world's largest genomic firms that are strategically located in close proximity to the National Institutes of Health, which dispenses \$14 billion a year in research grants. Another 210 units are

located in Shady Grove, served by the Shady Grove Metro station and proximate to the Shady Grove Life Sciences Center, which is currently home to 45,000 employees and 200 private companies. 19% of the portfolio is located in Manassas, less than a mile from the I-66 onramp, and within a 30-minute commute of 340,000 jobs. Income levels and job growth are both on the rise in Manassas where corporates are steadily expanding their footprint. Micron, for example, expects to create 1,100 new jobs in Manassas and is investing \$3 billion in that submarket. And finally, approximately 6% or 134 units are located in Leesburg in Loudoun County, the fastest-growing county in Northern Virginia where the population has grown by 29% from 2010 to 2018 driven by tremendous tech growth and supported by excellent infrastructure including access to the largest and fastest growing airport in the region.

Acquisition Portfolio's Submarkets' Supply Outlook: While these submarkets have robust employment bases and strong job growth drivers, supply has remained relatively muted as developers are focused on the urban core. 64% of the region's units under construction are located in just six urban-infill submarkets. In 2018, the Assembly portfolio's submarkets had less than 1% of inventory under construction compared with 2.8% of inventory under construction for the region as a whole. As a result, same-store rent growth for Class B product in the acquisition portfolio's submarkets has averaged 2.5% over the past three years and has outperformed DC Metro Class B rent growth by 70 basis points over the same period.

With development costs continuing to escalate, it remains financially challenging to build to rental price points that offer an attractive value proposition relative to home ownership in the suburbs. In addition, due to its height limitations and land-intensive surface parking requirements, garden-style multifamily requires 4x to 4.5x more land than high rise multifamily construction does, further limiting new supply of garden-style product.

Acquisition Portfolio's Rent Growth Potential: We expect to be able to grow rents in the acquisition portfolio in two ways. First by improved revenue management. We have optimized rents in our existing portfolio by managing our pricing strategy on a daily basis and structuring the lease expiration curve such that the majority of leases expire in the seasonally strongest quarters. We have established a track record of superior multifamily revenue management in the DC Metro region and have outperformed our peers' DC Metro average same-store NOI growth by 120 basis points in the full-year 2018.

Second, we expect to grow rents through appropriately scoped value-add unit renovations. 374 of the 2,113 units have already received a unit upgrade. We see the potential to renovate a little over 1,500 units in the first six years, with renovations taking place as the units' turnover. We expect the majority of renovations to be completed in the first four years. We are scoping these to cost between \$10,000 and \$14,000 per unit, with anticipated rent premiums of \$80 to \$125 per unit, resulting in an average return on cost that is in excess of 10%.

In summary, both our suburban and urban multifamily growth strategies are driven by the overall lack of housing affordability in our region and we expect both strategies to continue to outperform within the region in the near, medium and long-term. Let me now move on to what we plan to allocate capital out of.

2019 Disposition Strategy: With regards to the asset sales, we had initiated the sales process even before we were awarded the acquisition portfolio and it is now well underway. While we are not disclosing disposition details at this time, I would like to emphasize that our strategic objective is to significantly de-risk our commercial portfolio while allocating capital in a tax efficient manner that does not trigger the large capital gains currently embedded in our legacy commercial assets. We expect to take advantage of what continues to be a strong sales market in the DC Metro region and ensure the best possible overall execution for our shareholders. At this time, the four key takeaways on our 2019 dispositions are that first, we have strong interest from a credible buyer pool and continue to expect the majority of the sales to close in the third quarter. Second, we expect to sell commercial assets that pose risk to our cash flows in both the near and long term. Third, we expect to have solved for almost 70% of the

capital gains currently embedded in one sector of our portfolio, a meaningful shift that will allow our future capital allocation decisions to be more flexible and manageable. And finally, our prior guidance included asset sales in addition to the sales that will match fund the announced acquisitions. The prior guidance includes the sale of Quantico near mid-year, which is a legacy, non-core office asset. We've signed an agreement to sell Quantico for \$33 million, have received a non-refundable deposit and expect the sale to close in the second quarter.

Conclusion: All in all, we believe this capital allocation will further streamline our portfolio and company into being one of the largest value-add multifamily REITs in the DC Metro region. We believe that the growth of Amazon HQ2 will have a multiplier effect on the value-conscious renter demographic and that demand for Class B value-add multifamily will remain on a secular, long-term growth trajectory.

Now, I would like to turn the call over to Steve for further details on the transaction as well as our financial and operational performance in the first quarter of 2019.

Stephen E. Riffie - Executive Vice President & Chief Financial Officer

Thanks Paul. Good morning everyone.

Multifamily acquisition: Beginning with the acquisition that Paul described, we are acquiring the Assembly multifamily portfolio for \$461 million. We expect the transaction to close in two tranches with the first tranche comprising the Northern Virginia assets expected to close next week. The second tranche comprising the two Maryland assets is expected to close by the end of May, if the assets are not pursued by the Montgomery County Housing Opportunities Commission or the Department of Housing and Community Affairs.

Office and retail dispositions: We plan to match fund the acquisition with commercial asset sales. We expect to be under agreement on the sales and be able to announce them in the second quarter and to close the sales primarily in the third quarter. Due to first closing the acquisition as part of the reverse 1031 Exchange process, we have commitments in place from members of our bank group for a new \$450 million term loan with a six-month maturity at the same pricing as our revolver. We expect to repay debt and return to our normal leverage levels once the asset sales are complete.

GAAP measures: Moving on to our first quarter performance, net loss attributable to controlling interests was \$4.4 million, or a negative \$0.06 per diluted share, which was lower than the net income of \$3.3 million, or \$0.04 per diluted share reported in the first quarter of 2018, mainly due to the recognition of an \$8.4 million impairment charge to reduce the carrying value of Quantico Corporate Center to its estimated fair value.

1Q 2019 Core FFO performance: On a year-over-year basis, Core FFO per share was \$0.02 cents lower primarily due to the disposition of 2445 M Street in June 2018. On a sequential basis, Core FFO was \$0.02 lower primarily due to known tenant move outs in the office portfolio as well as seasonally higher utilities expenses.

1Q 2019 Same-Store NOI performance: Year-over-year same-store NOI growth of 2.9% on a GAAP and 3.8% on a cash basis was driven by same-store multifamily rent growth, retail average occupancy gains as well as office reimbursements and lease termination fee income. Sequential same-store NOI was negatively impacted by the termination of the master lease for the top two floors at Watergate 600 that we detailed on the last call and that have now been backfilled with rents expected to commence in early 2020.

1Q 2019 Same-Store NOI performance by asset class: Same-store office NOI grew 1.3% and cash NOI grew 2.3% year-over-year primarily due to higher reimbursements and lease termination fees. For the full year, we expect slightly higher same-store office lease termination fees to be more than offset by lower prior-year expense recoveries compared to 2018. Same-store multifamily NOI and cash NOI grew 4.4% year-over-year due to 260

basis points of rent growth driven by renewal trade outs of 4% in the quarter. We grew rents on a year-over-year basis at all of our multifamily assets while maintaining average occupancy at 95.4%. And finally, retail same-store NOI and cash NOI grew 4.5% and 6.1% respectively year-over-year due to new lease commencements at a few of our shopping centers and lower provisions for bad debts that more than offset increased real estate taxes.

1Q 2019 commercial leasing: We signed approximately 90,000 SF of new office leases and 86,000 SF of office renewals. New office leases included the 51,000 SF lease for the top two floors of Watergate 600 for a term of 17 years and eight months. We grew GAAP rents by nearly 39% and cash rents by approximately 14% over the expiring Blank Rome lease. We are providing a tenant improvement allowance of approximately \$11.80 per foot per year of term and no free rent, which makes the total concession package for this lease a little better than the current market for large, Class A deals in the District. We expect both cash and GAAP rents to commence in early 2020.

Following the lease-up of Watergate 600's top two floors, we have a pipeline of approximately 133,000 SF of deals for approximately 50,000 SF of current availability, which includes all other 2019 lease expirations. Thereafter, annual lease expirations at Watergate 600 are negligible until 2026 and beyond.

Moving on to Arlington Tower, since we delivered our Space+ program there in January, we have achieved 30,000 SF of signed leases or LOIs that are at an 8% premium to market with a weighted average term of 48 months. Moreover, our Space+ program has been awarded "Best in the Industry – Flexible Office Space Provider" by the Commercial Real Estate Brokerage Association of Greater Washington, DC.

Space+ Q1 2019: With regards to Space+, we finished the quarter with approximately 173,000 SF of delivered Space+ space, which is located in 68 spaces across 11 buildings. The delivered square footage is currently 79% leased with the majority of the remaining space having been recently delivered. We have another 101,000 SF across 21 spaces in the Space+ program that will deliver over the next six to eight months.

Q1 2019 Office Renewal Leasing: Finally, on office renewals, the GSA lease at 1227 25th Street that we referenced in the 8K we filed last November comprised 37,000 SF of the 86,000 SF of office renewals signed in the first quarter. Excluding this lease, we would have achieved a 23.7% increase in GAAP and 13.1% increase in cash rent spreads. As a reminder, 1227 25th Street is one of three assets in the Company's portfolio that has space leased to the GSA. Federal government tenants comprised only approximately 1.5% of our annualized base rental revenue as of March 31, 2019.

Q1 2019 Retail Leasing: Moving onto retail, we signed approximately 49,000 SF of new retail leases and 40,000 SF of retail renewals in the quarter. New retail leases included leases for challenging vacancies at Concord Centre and Montrose Shopping Center that we had mentioned being close to signing last quarter. As Paul said, we have additionally executed leases for the 28,000 SF former hhgregg space at Hagerstown and the 23,000 SF former hhgregg space at Frederick Crossing, and are continuing to negotiate a lease with a medical user for the entire second floor of the new addition at Spring Valley. With regards to GAAP rent commencements, the 28,000 SF lease at Montrose has already commenced, and we expect the 15,000 SF lease at Concord as well as the approximately 51,000 SF of leases at Hagerstown and Frederick to commence by the first half of 2020.

FY 2019 guidance: As mentioned in the earnings news release, we are not updating our 2019 guidance at this time, but look forward to being able to do so upon entering into agreements on the sale of assets. That said, let me point out that our first quarter G&A was negatively impacted by severance and restructuring expenses as well as higher payroll and legal expenses. We expect a lower run rate for the year, consistent with our prior G&A for Core FFO assumptions. Finally, we expect to be able to continue to cover and maintain our dividend even after

including the impact of our capital allocation, which is expected to enhance the stability of our cash flows and our long-term FAD growth.

Balance Sheet: As always, our focus remains on maintaining our balance sheet strength. We expect our net debt-to-adjusted EBITDA to be in our targeted range of 6x to 6.5x following the completion of all of the planned asset dispositions and expect to end the year at the lower end of the range. And with that, I will now turn the call back over to Paul.

Paul McDermott - President & Chief Executive Officer

Thank you, Steve. An additional positive element in the first quarter was that Washington REIT was included in the S&P Small Cap 600 Index as of March 7, 2019. In addition to the increased passive ownership, we expect the move to create greater long-term interest from active managers who follow the index.

To conclude, we are excited to execute what we believe will be a very meaningful capital allocation that will significantly improve WashREIT's long-term risk adjusted returns. We expect to accomplish several key strategic goals including further de-risking the portfolio, improving the stability and strength of our cash flows and FAD, and solving for some of the large embedded tax gains in our commercial portfolio. We also expect to emerge as one of the largest value-add multifamily REITs in the DC Metro region, with a portfolio that addresses one of the region's most pressing needs – affordability. We continue to execute well on our key leasing milestones and on our development of the Trove, which delivers its first units at the end of this year. We expect to regain our balance sheet strength when the asset sales are complete and are working hard to accelerate our execution so we can provide you with updated guidance as soon as possible. With that, let me now open the call to answer your questions.

Operator

At this time, we will be conducting a question-and-answer session. [Operator instructions].

Operator

Our first question comes from Blaine Heck with Wells Fargo.

Q: Thanks, good morning. So I appreciate there is not a lot you can discuss with the respect to the details on the multifamily transaction and disposition at this point. But maybe I can just ask whether or not you can give any color on whether the transactions are going to initially be dilutive or creative based on the yields on the acquisitions and dispositions side and further, to what extent dilution is possible?

Paul McDermott - President & Chief Executive Officer

I greatly appreciate your question, but I hope you can understand we are well into a process right now and we can't comment while it's under way. We hope to be able to provide updates in the second quarter, but right now we're in the middle of a process and it is in the best interest of our shareholders to remain steadfast in our comments or lack thereof.

Q: On the office side, there's still a lot of redevelopment going on, converting Class B to Class A space and new supply coming on. How has this already high vacancy affected rents in Class A? And are you guys seeing those factors as a threat to your ability to push rents on Class B assets at this point?

Paul McDermott - President & Chief Executive Officer

Well, I think the average rent rate in our Class B portfolio is around \$50 a foot gross. We cap out the ceiling for Class B in Washington, DC in the mid- 50s, that is \$55 to \$56 a foot. So we have adequate runway in front of us.

The Class A that you're referring to have a seven in front of them and probably for the higher quality ones have an eight in front of them. So I still feel like we have room to run.

With that said, we still see it being extremely competitive for the larger tenants in town. And if you look at the deal we just did at the Watergate that was a highly competitive situation. We're happy with the economics that we got. But concessions still play an important role in any negotiation. And I don't see those concessions diminishing in the near-term.

Q: Lastly, you talked about this in your prepared remarks and in the press release. You noted that you've achieved leasing goals at your Space+ units in Rosslyn. I guess given the success that you have had, what's your capacity for expanding that program into additional buildings as you look forward?

Paul McDermott - President & Chief Executive Officer

It's a fluid situation. We initially were looking at up to 5% of the portfolio. I think given the success we've had, we're probably going to expand that, but every time we look at Space+ in a vacancy, it has to hit the three metrics that we've outlined. First and foremost, we'd like to achieve a market premium. We're targeting between 8% and 10% of a market premium over regular leasing. Second, we look at the space that we've had, how long has it been on the market and is there an opportunity to greatly accelerate NOI through that space and so we look at compression time. The Space+ that we delivered at Arlington Tower was one of the more successful opportunities that we capitalized on. Third, we're looking to obviously reuse a lot of the Tis, up to 90% that go into Space+. If we feel like we can accommodate those three metrics, we will look at Space+ and other opportunities and other office assets that we have.

Stephen E. Riffie - Executive Vice President & Chief Financial Officer

I'll just add what you referenced from our prepared remarks that we've already delivered 173,000 SF across the 11 buildings.

Operator

Our next question comes from Dave Rodgers with Robert. W. Baird.

Q: I think a lot of your commentary was really targeted at why apartments are better than commercial for the bulk of your portfolio and I'm summarizing quickly. I wanted to know your thoughts on continuing to own any components of the commercial portfolio given the length of the comments that you just made about apartments and what your long-term target is, if there's an update for the apartment division NOI as a percentage of the total?

Paul McDermott - President & Chief Executive Officer

We've been remarkably consistent since I've been here that we wanted to increase our multifamily presence in the region. Specifically with our portfolio, we have continued to try to recalibrate with more of a multifamily weighting. Ultimately, I would like to see more than half of our portfolio be in the multifamily space. I think we've been successful at opportunities that we've targeted since this management team has come onboard. I think our affordability GAAP strategy and continuing to pursue affordability has really distinguished us from other owners of multifamily product here in Washington. I view it as a continual de-risking of the portfolio and strengthening of our cash flows and our FAD projections moving forward.

Q: What type of acceleration do you think adding the suburban component to the strategy really adds to that and does that change that "more than half"? Does it become substantially more than half with the suburban strategy invoked?

Paul McDermott - President & Chief Executive Officer

Let's step back for a second, if I go back to my prepared remarks, bigger isn't better for Washington REIT, better is better. We've tried to remain thoughtful and disciplined in our underwriting. We've passed on more multifamily than we've bid on. Without hesitation, we've passed on some portfolios that were out there, we saw the moniker value-add, but we definitely understood that there was capital needed for those assets, but was it truly creating value-add opportunities for our shareholders? I'm very happy with our team that we were patient and we've waited for the right deal. We're going to continue to do that.

There'll be both opportunities for us to look at portfolios and one-off deals. Let's not forget, we have a 401 unit Trove asset where Phase 2 will commence this month. We'll begin delivering units at the end of this year. We also have Riverside to focus on. We also have some other embedded multifamily growth opportunities in our portfolio. So between acquisition, development and redevelopment, we're on a good trajectory to continue to grow our multifamily portfolio, create long-term NAV for our shareholders and de-risk the portfolio.

Q: I know the leasing economics in retail were tougher in the quarter. Is that just indicative of where big box leasing is today?

Stephen E. Riffie - Executive Vice President & Chief Financial Officer

From quarter-to-quarter, you have to look at the mix of what's being leased. We put the 8-K out in the fourth quarter of last year and what you focused on there were the expirations in office that we really needed to address. We're still in April and we've already addressed, excluding Quantico, that we're selling, we've already addressed either through lease or LOI, 60% of those leases that are expiring.

In retail, the amount of expirations, were really quite normal – almost on the light side of normal. Our real focus on retail this year has been on the vacancies that were in the portfolio. Some of them a little bit stubborn, some of them have been out there for a while. When you look at what we've already executed in terms of all of that, we've got our leasing done at Concord, Montrose, Randolph and also the two former hhgregg spaces in terms of focusing on our big vacancy. We've knocked off most of that. Really the lease economics are not that bad when you look at leases that have been vacant for a little bit longer. The mix can change from quarter-to-quarter today.

Q: Have you issued any equity year-to-date?

Stephen E. Riffie - Executive Vice President & Chief Financial Officer

We have not.

Q: I guess it sounds like, on the guidance, that you just saw a lot of moving pieces at this point. But it sounds like you know when you'll close the acquisition and you sounded fairly certain that you will close the dispositions in the third quarter. Without indicating which assets those would be, what's the variability, that you're concerned with that's making you take guidance completely away?

Stephen E. Riffie - Executive Vice President & Chief Financial Officer

We've got dual processes going along and there's interest in a lot of our assets and we're trying to find a way that makes the most sense in terms of match funding, creating the most value for our shareholders. We've modeled various combinations of what we might sell to match fund and the interest is pretty deep. We would like to get a little further along in the sales process and have more certainty of whether or not something will close in more than one tranche in terms of the sale, therefore affecting the timing. We also really don't want to affect the sales process by sort of backdoor giving away how we think it's going to turn out until we've further along in execution.

Operator

We do have a follow-up from the line of Blaine Heck from Wells Fargo. Please proceed with your question.

Q: Paul, can you comment on the sales process for Quantico? How long you guys were marketing the asset and how would you describe interest levels out there?

Paul McDermott - President & Chief Executive Officer

We've been looking at Quantico, as we've said a couple of times, we wanted to get further along in the leasing process, before we decided to take it to market. I can't really go a whole lot further than that because we're still negotiating some aspects of that. But that was an asset that we had identified as a non-core asset that we want it to monetize at the appropriate time, we feel like now is the right time to make that move.

Q: Steve, the press release noted that office same-store NOI growth benefited from term fees. Is that all associated with Watergate 600? Or is there something else driving those fees. What would the office same-store growth have been backing out the term fees?

Stephen E. Riffie - Executive Vice President & Chief Financial Officer

We did disclose the amount of term fees and I don't have the calculation that's in the supplement here. It was a little over 500,000 for the quarter. So you can do the math, I apologize that I haven't done that, but that's why we gave the disclosure in the supplement, because you would see with and without. And it wasn't all in one place.

Q: The multifamily year-over-year rental rate growth stats that you guys report on page 21. It's been accelerating for a while. It reached the high, and I think that's quarter of 2.6%. Can you just talk about the main drivers of that growth, you did a little bit in the remarks. Do you think that the HQ2 announcement has had a direct impact on the market at this point?

Stephen E. Riffie - Executive Vice President & Chief Financial Officer

We really haven't factored HQ2, in terms that are going to affect future rent growth and all of that. We've done a great job with our team in terms of revenue management and optimizing and maximizing what the right pricing is at each property based upon traffic counts. We've done that while maintaining occupancy. We also had renovation programs, which have helped and they're going to continue through this year at Riverside and Wellington.

Our renewal trade-outs for the quarter we're strong as well, they were 4%. It's all back to affordability. We own apartments in the growing sector that needs affordable housing. Our demographics are going to continue to be very strong. That's why we're allocating more capital to multifamily.

Operator

Our next questions comes from John Guinee with Stifel.

Q: What do you think is replacement cost for the product you're buying Herndon, Manassas, Leesburg, Germantown, Gaithersburg?

Paul McDermott - President & Chief Executive Officer

We'll probably be in the \$217 to \$218 a door, on our math because they are obviously in different locations. The replacement costs could vary anywhere from a low of \$220 a door to a high of \$260 a door on average. We're going in around \$218 and the replacement cost on average on the portfolio is a \$238 a door.

Q: Second, way before your time, Quantico was bought at \$60 million, \$220 a foot getting sold at \$121 a foot, 60% occupied. Is that representative of market conditions for commodity DC office space in this day and age?

Paul McDermott - President & Chief Executive Officer

I do not believe it is. If we're being kind, Stafford is a tertiary market and we are executing a non-core asset. Our asset management team has done a yeoman's effort at trying to get that back up to a leasing metric that was palatable for all of us. We're in a position now where we'd like to make a move and exit a non-core asset and reallocate the capital elsewhere.

Q: Then on the retail, just out of curiosity, your hhgregg vacancies are being backfilled, are the economics on Page 2 of the press release for those two spaces, and who's moving into those spaces and why not sooner? Why not waiting a full year?

Paul McDermott - President & Chief Executive Officer

The spaces have to be reconfigured. It's the same tenant for both spaces. It is a furniture retailer with multiple brands. Both deals are 10-year terms from rent commencement date. The rental rates vary from the low \$6 a foot to the upper \$6 a foot, and the TI packages are \$2.30 per year of term. It was a very competitive process. We looked at other tenants that probably could have paid a bit higher rent, but that was outsized by the amount of TIs that needed to go into the space. We're comfortable moving forward with this tenant and we feel we did a little bit better than the market was offering us with these two leasing executions.

Q: It appears from your commentary on the asset sales that you're going to be selling a lower quality product, and if Quantico's any indication, you'll be selling from the bottom of the list. Why not just take this opportunity to cut the dividend as you throw out the baby with the bathwater?

Paul McDermott - President & Chief Executive Officer

You've definitely identified the worst asset in our portfolio and that's why it's being monetized. You need to look at a blended rate. We're selling the assets that we think will help us de-risk the portfolio, and from a CapEx standpoint, we're probably pruning out some of the larger consumers of that. I can't really comment on any other assets that we're monetizing at the point.

Operator

Our next question comes from Michael Lewis with SunTrust.

Q: If you had to choose between keeping only your office portfolio or only your retail for the long-term, which would you choose?

Paul McDermott - President & Chief Executive Officer

Today, given the D.C. market conditions, I think that retail would probably be a better bet considering our retail is very well located. It's generational. If you look at how retail's performed over the last, since I've gotten here and this new management team has gotten here, retail has performed well and office has presented its challenges.

Q: It looks like last month you changed short-term incentive plan targets to leasing targets instead of FAD targets. Maybe you could just comment on why you made that change and why you think leasing targets might be more appropriate than FAD?

Paul McDermott - President & Chief Executive Officer

That was a board mandate and the board recognized that 2019 and 2020 were going to be all about leasing. We've outlined in our 8-K and as we continue to try to be transparent with you and our other investors, we had some significant leasing challenges embedded in our portfolio from the next 18 to 24 months and we wanted to address those head on and highlight those, and that's why that change was made.

Q: I saw Charles Nason is retiring from the board. He was the Chairman until last year. He's been a lead independent director since then. My question is on the composition of the board, are you going to look to replace him?

Paul McDermott - President & Chief Executive Officer

I can't really comment. We have a governance process. About Charles Nason in particular, he gave 16 years to this organization. He did an outstanding job leading virtually every committee here. Chuck has been a great mentor to this leadership team and to the Board. He will be severely missed.

Operator

Our next question comes from Chris Lucas with Capital One.

Q: On guidance, I know you're not updating, I'm just curious if there are some of the underlying initial assumptions that you guys provided that we should still be counting on, particularly related to sort of the other dispositions that were initially outlined in some of the other items, G&A and portfolio same-store NOI, those kinds of things.

Stephen E. Riffe - Executive Vice President & Chief Financial Officer

We've been counseled and advised that if you're not going to update guidance, don't go reaffirm and confuse people. The main factor for us not updating guidance right now is just the reallocation due to the asset acquisitions and the sales timing and the actual proceeds.

In terms of total dispositions, we have been clear on the script that this match funding is in addition to our prior assumption for the level of dispositions. We're saying we're not changing the level of prior disposition guidance. In fact Quantico would comprise part of the original guidance in terms of dispositions if that helps. We're looking forward to updating on everything else. We've reported our same-store results and we gave a little bit of color in terms of our performance for the quarter. So that would have been what we guided to before as an example.

Q: Paul just on the thought process behind dispositions generally, is your goal to execute at the best level relative to sort of what the market is valuing versus what your own internal value is, or is it related to more of a de-risking process?

Paul McDermott - President & Chief Executive Officer

First and foremost, we're trying to create long-term NAV for our shareholders. We think every asset has its own individual inflection point. And we continue to try to play that in conjunction with the market. Our longer-term objective is to continue to de-risk this portfolio, take out much of the volatility and provide stable, long-term cash flow growth for our shareholders. We've had different opportunities to do that. If you look back at some of the executions we have done like getting out of suburban Maryland where we did not feel like that capital can be reallocated into a higher growth trajectory, that's what we've done. What we're continuing to do is reallocate capital into space that we feel offers better growth trajectory for us as well as minimizing the big CapExs that this portfolio has sustained in the past.

Q: As it relates to the dispositions, any chance that any of this could end up in a joint venture structure as opposed to outright sales?

Paul McDermott - President & Chief Executive Officer

I would never rule out anything. Yes I'm assuming if someone looked it up and said, yes, we'd like to do this with you, WashREIT, yes that could happen. But beyond that, we have to let the process play out to see what the final execution and structure will look like.

Operator

If there are no further questions, I'd like to turn the floor back over to management for any closing comments.

Paul McDermott - President & Chief Executive Officer:

Thank you. Again, I would like to thank everyone for your time today, and we look forward to seeing many of you at the NAREIT conference in June. Good afternoon.