

**Transcript of
WashREIT
First Quarter 2021 Earnings Conference Call
April 28, 2021**

Participants

Paul McDermott - Chairman, President & Chief Executive Officer
Stephen Riffée - Executive Vice President & Chief Financial Officer
Grant Montgomery - Vice President, Head of Research
Drew Hammond - Vice President, Chief Accounting Officer and Treasurer

Analysts

Blaine Heck – Wells Fargo
Chris Lucas – Capital One
Anthony Paolone – JP Morgan
Daniel Ismail – Green Street

Presentation

Operator

Welcome to the Washington Real Estate Investment Trust First Quarter 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, Drew Hammond, Vice President, Chief Accounting Officer and Treasurer will provide some introductory information. Drew, please go ahead.

Drew Hammond – Vice President, Chief Accounting Officer and Treasurer

Thank you and good morning everyone. Before we begin, please note that forward-looking statements may be made during this discussion. Such statements involve known and unknown risks and uncertainties, which may cause actual results to differ materially, and we undertake no duty to update them as actual events unfold. We refer to certain of these risks in our SEC filings.

Reconciliations of the GAAP and non-GAAP financial measures discussed on this call are available in our most recent earnings press release and financial supplement, which were distributed yesterday and can be found on the Investor Relations page of our website.

Participating in today's call with me will be Paul McDermott, President and Chief Executive Officer; Steve Riffée, Executive Vice President and Chief Financial Officer; and Grant Montgomery, Vice President and Head of Research.

Now I'd like to turn the call over to Paul.

Paul McDermott – President & Chief Executive Officer

Thank you, Drew, and I appreciate you for filling in for Amy on this call today while she is out.

Good morning, everyone, and thanks for joining us today. Last evening, we released our first quarter earnings results which reflect performance that was in line with our expectations. We are pleased to report that the gradual

rebound in demand across our multifamily and commercial properties that commenced in January continued throughout the first quarter and into April. Looking ahead, we remain optimistic about the accelerating vaccine deployment, which we anticipate will translate to increased visibility on our near-term performance allowing us to reinstate full-year FFO guidance.

We are now heading into the spring multifamily leasing season, and urban demand continues to rebound while our suburban portfolio fundamentals remain strong. Pricing trends are improving, and both the volume of concessions and average concession amount per unit continues to decline. We expect multifamily rents to show steady improvement as urban markets recover and concessions decline and burn off. Trove continues to lease up with increasing momentum, reaching 51% leased this week, and remains on track to stabilize in the second quarter of 2022.

Over the long-term, our value-oriented multifamily portfolio is positioned very well with favorable supply and demand fundamentals. From a demand perspective, the Washington Metro region has a significant housing shortage that has been accumulating over many years and an affordability crisis that is only getting worse as the cost of homeownership continues to rise above affordable levels for median income earners. And from a supply perspective, while Class A supply has been growing, the majority of renters remain underserved by new supply because our region has not been producing housing product at the price point that would address the growing demand. Therefore, we expect demand for our value-oriented multifamily units, which are priced to target the largest, most underserved renter cohorts, to benefit from having a large and growing target market and limited competitive supply over the long-term.

In commercial, both new and renewal leasing activity have picked up significantly thus far this year. We have executed over 150,000 SF of commercial leases in Q1 2021, which is 25% above our year-to-date leasing volume at this time last year. This amount includes backfilling a 21,000 SF tenant at Arlington Tower with a new tenant through 2029. Since quarter end, we have signed a 74,000 SF eight year-renewal with Sunrise Senior Living at Silverline. Year-to-date, we have eliminated approximately 55% of our 2021 commercial lease expirations.

Office touring and proposal activity increased in March to the highest level it has been since the pandemic hit. We currently have approximately 135,000 SF of new and renewal commercial leases at LOI, including a 44,000 SF renewal with a two-floor tenant at Arlington Tower and a 5-year 12,000 SF extension at 1775 I Street.

While office utilization remained relatively stable during the second half of 2020, we are now seeing more tenants returning to their office spaces. At year end, just over half of our spaces were being used by tenants and that percentage has increased to over 60% and is on the rise as the pace of vaccinations rapidly increases.

Alongside the rise in tenants returning to the office, we are experiencing an increase in parking income. In response to the increasing activity levels in the city, the District is phasing back in the parking restrictions that were eased at the onset of the pandemic. In an effort to capture more transient parking income, we recently rolled out new parking programs including short-term passes or parking reservations and we are experiencing a significant pick-up in transient parking in April. We expect parking income to continue to grow going forward as we still have about half of our parking capacity available, which provides an alternative to public transportation for companies that want to provide options as their employees return to the office.

Now, before turning the call over to Steve to discuss our financial performance and outlook, I would like to take a few minutes to discuss our strategy and key areas of focus as we continue to navigate through the recovery phase of the pandemic.

First, we are focused on optimizing our daily pricing model for multifamily in order to capture increasing demand for apartments as renters, particularly younger renters, return to urban areas. Multifamily net applications remain strong at our urban properties and are up approximately 50% year-to-date and over 100% in March leaving room to continue reducing concessions and increasing rents. Concessions are declining and effective lease rates remain on an upward trend. Occupancy, excluding our two rent-controlled properties, now stands at 95.8% and our emphasis is increasingly focused on improving effective rents as we head into the spring leasing season. Our two rent-controlled urban properties, Kenmore and 3801 Connecticut, have experienced renewed strength recently, including Kenmore leasing ten units last week, the highest amount since the start of the pandemic. This strength has driven the 30-day occupancy trend for our rent-controlled assets above 94%, a 440-basis point improvement from 30 days ago.

Second, we are focused on driving value creation through renovations. Two-thirds of our 3,000-unit renovation pipeline is in our suburban garden-style communities, where occupancy remains strong and effective lease rates are positive on a blended basis. When the pandemic hit, we temporarily put our renovation programs on hold yet continued to closely monitor each of our submarkets for rent growth and renovation potential. We are encouraged by the demand levels that we are seeing in nearly all of our suburban markets, which allow for rent increases to deliver an accretive ROI. Therefore, we have reactivated our renovation process and will continue to test the market and scale these programs as market conditions improve.

Third, we are focused on driving new commercial leasing as our regional vaccination rates accelerate, schools return to in-person classes and Metro rail and bus ridership increases. We believe that these three factors will prove to be the key catalysts for driving new leasing decisions.

We have positioned our portfolio to benefit from the rebound in new leasing activity with high-quality move-in ready space at price points and floor layouts that capture the highest volume of leasing in our region. Over half of our current vacancy is in Northern Virginia, where job growth and touring activity are strongest. Since we have no co-working tenants, all of our spaces are private, which allows tenants to control the health and safety of their environments. Our move in ready spaces offer more flexibility than traditional leases. However, we do not offer month to month leases, which allows us to participate in the increasing demand for flexible office space while also maintaining our favorable weighted average lease term and preserving our opportunities for future portfolio transformation. We expect move-in ready space to translate into quicker lease commencements than spaces that require longer tenant build outs.

Lastly, we are focused on pursuing opportunities as part of the WashREIT transformation. We continue to believe that transformation toward multifamily is in the best long-term interests of WashREIT and our shareholders. This pandemic has re-affirmed our commitment to, and the direction of, our research-driven multifamily investment strategy. Our investment process includes an extensive evaluation of a wide range of ROI drivers using a dynamic proprietary system to evaluate investment performance metrics at both the market level and submarket level. We plan to continue to enhance and broaden the scope of our research as we evaluate and pursue opportunities for further transformation.

And with that, I will turn it over to Steve to review our balance sheet, collection performance, first quarter results, and our outlook.

Steve Riffie – Executive Vice President & Chief Financial Officer

Thank you, Paul, and good morning everyone. I'll start off today with a quick update on our balance sheet and collection performance before discussing our first quarter financial performance and future outlook.

Our balance sheet remains strong with no debt maturities until the fourth quarter of 2022 and we have maximized liquidity. Last year we took steps to strengthen our balance sheet and increase our operational flexibility, putting us in the strong position that we are in today. At quarter end, we only had \$33 million outstanding on our fully available \$700 million line of credit and all of our covenant ratios remain strong.

Now, I'll turn to our cash collection performance.

Our multifamily collections continue to be excellent, tracking well above national averages. We collected over 98% of cash and contractual rents during the first quarter and our rent collections through April are in line with our quarterly trend.

Our office and retail collections remain strong. We collected 99% of office contractual rents, which excludes rents that have been deferred, and 99% of office cash rents during the first quarter. Cumulative net deferred rent associated with office tenants declined to \$700,000 as of March 31, 2021.

Our retail portfolio continues to hold up exceptionally well and we've even upgraded two of our major restaurant tenants during the pandemic. We collected 97% of retail contractual rents for the quarter and 96% of retail cash rents. Cumulative deferred rent associated with retail tenants has now dropped to \$900,000 as of March 31, 2021.

Overall, we have only deferred a small portion of rent, and we expect the cumulative future cash NOI impact to be less than \$0.01 per share by year-end 2021.

Now turning to our financial performance where our first quarter operating results had a challenging comparison to prior year results when we were building significant momentum pre-pandemic. Net loss for first quarter of 2021 was \$1.1 million dollars, or \$0.02 per diluted share, compared to net income of \$1.7 million, or \$0.02 per diluted share in the prior year.

Core FFO of \$0.34 per diluted share was \$0.02 above the top end of our guidance range as we received slightly more than a \$0.01 per share of settlements of prior claims reported in other income, and NOI was slightly stronger than we had forecasted. On a year-over-year basis, Core FFO per share declined by \$0.03 due primarily to asset sales and the impact of the pandemic on rental and other income on a comparative period basis.

Overall, same-store NOI declined 6.5% year-over-year on a GAAP basis and 6% on a cash basis for the quarter.

Multifamily same-store NOI declined 9% percent on a GAAP and cash basis for the first quarter compared to 2020, which was the best performing quarter in the last ten years. Revenue decreased 3.8% primarily driven by lower lease rates at our urban properties on a year-over-year basis due to COVID-19 while expenses increased

due to more snow removal, the timing of utility expenses, and insurance. Multifamily lease rates declined 4.8% and 7.4% on a gross and effective blended basis during the first quarter, reaffirming our view that December represented the height of new lease rate pressure. New lease rates thus far have increased over 5% in April from March on an effective basis. Moreover, lease executions with May move-in dates are indicating further improvement. Multifamily fundamentals continue to improve overall, and we believe that the first quarter represented the low point for same store multifamily NOI.

Office same-store NOI declined 6.1% and 4.7% on a GAAP and cash basis in the first quarter compared to 2020 driven by lower parking income and lower lease termination fees.

Same-store GAAP NOI increased at our remaining retail centers, which we report as other, by \$300,000 on a GAAP and cash basis primarily due to lower credit losses and higher expense reimbursements.

Overall, commercial credit losses reduced our Core FFO by less than \$0.01 cent per share in the first quarter. We continue to believe that we have substantially addressed our pandemic related credit risks and we anticipate continued improvement in credit performance over the course of the year.

Turning to leasing activity, we signed approximately 29,000 SF of new office leases and 57,000 SF of office renewals in the first quarter. Office rental rates increased 4.3% on a GAAP basis and declined 11.1% on a cash basis for new office leases and increased 7.1% on a GAAP basis and declined 1.1% on a cash basis for office renewals.

During the quarter we saw an increase in commitments to extend office leases and as Paul discussed, in March, we experienced the highest levels of tours and proposals since the pandemic began. Since quarter end we have continued to progress leasing, notably signing Sunrise Senior Living to a lease extension of approximately 74,000 SF. We also continue to progress lease extension discussions with a large tenant at Arlington Tower.

For retail assets we executed approximately 68,000 SF of renewal leases during the quarter and achieved an average rental rate increase of 12.6% on a GAAP basis with only a slight first year decline of 0.9% on a cash basis. These renewals represent approximately 10% of our retail portfolio revenues since year-end 2020.

Now turning to our outlook. With the continued rollout of vaccine programs, our growth prospects are improving, however, the timing of when we will reach an inflection point in the market is still difficult to assess at this time.

Therefore, the extent that vaccine deployment and the corresponding improvement in economic activity and overall sentiment will offset the pandemic impact in 2021 prior to that inflection, is uncertain. We do, however, believe there will be improvement once we reach that point given that the embedded growth drivers that we had prior to the pandemic remain substantially intact. While we believe that the most disruptive part of the pandemic is behind us, the timing and pace of the economy reopening remains uncertain, and we are not ready to forecast, with a sufficient degree of accuracy, the timing and extent of the recovery over the course of the full year to provide FFO guidance for the full year. We are, however, providing second quarter FFO guidance.

We are encouraged by the early signs of growth that we are experiencing across the multifamily and commercial portfolios as our regional economy continues to gradually recover from the pandemic.

Starting with multifamily, total operating portfolio occupancy ended the quarter at approximately 95%. Excluding the two rent-controlled assets, we have managed operating portfolio occupancy to 95.8% after quarter end, allowing us to begin to further reduce concessions and increase effective rents as we begin the spring leasing season. We've gained occupancy since year end, effective lease rates are trending in a positive direction, urban touring and net application volumes remain strong, and concessions are normalizing. These are all positive trends heading into the spring and summer leasing seasons which support our expectation for sequential quarterly same-store multifamily NOI improvement in 2021. Beyond the seasonal lift in the second quarter, we expect the broader inflection to occur at some point in 2021 heading into 2022 and for it to have a greater impact on 2022.

At Trove, which represents our only non-same store multifamily property, leasing momentum continues to grow where we are seeing April tours higher than any prior month during the lease-up and net leases this month more than double the regional average. Occupancy is currently 48%, and, as Paul said, the property is now 51% leased with less than 200 units left to lease. While Trove contributed approximately \$200,000 of income in the first quarter, we expect its contribution to ramp up each quarter to approximately \$1 million by the fourth quarter of 2021 with significantly greater growth in 2022 over 2021 levels and then again further growth in 2023.

Now moving on to commercial, we are pleased to see increased touring and proposals indicating that the new leasing decision making is increasing, and we continue to experience strong collections and long-term renewal activity. However, we do not yet have enough visibility to the timing of the inflection point for new office leasing to accurately forecast occupancy growth and NOI growth throughout the remainder of the year. We believe that inflection point will be driven by a combination of widespread vaccination rollout, schools reopening to a further degree, increased confidence in the safety of public transportation, and the general community returning to more normalized activities. As this continues to occur, it should impact the timing of new lease commencements, however, those potential anticipated commencements are at risk from a timing standpoint if new leasing commitments and build out of space is delayed. Therefore, we are not ready to provide a full-year guidance range yet without more visibility.

Following the retail renewals that we have executed year-to-date, which represent approximately 10% of our retail revenues, we have less than 2% of retail revenue expiring in 2021.

While we are seeing recent signs and experiencing increased activity across our office portfolio, one of the most challenging calls for us to make is when sentiment will turn, and decision-making will pick-up to even higher levels, and, once again, when those additional lease commencements will begin. Considering those factors, we believe we are well positioned once activity improves, and we expect our office portfolio to be highly responsive to the economy reopening. The majority of our vacancy is in high quality space, some of which is move-in ready.

Nearly 60% of our current vacancy is in Northern Virginia where job growth and absorption rates are the strongest and where we are seeing the most touring and leasing activity. As Paul mentioned, we expect parking revenue to continue to improve going forward, driven primarily, by an increase in transient parking.

We are guiding to a Core FFO per share range of \$0.32 to \$0.35 per share for the second quarter excluding any potential acquisitions or dispositions. We expect same-store multifamily NOI to range from \$20.5 million to \$21 million, office NOI to range from \$18 million to \$18.75 million and other NOI to be approximately \$3 million.

For the full year, we expect G&A to range from \$22.5 million to \$23.5 million, interest expense to now range from approximately \$40.5 million to \$41.5 million, and development expenditures are expected to range from \$5 million to \$7.5 million, again excluding any potential acquisition or disposition activity.

We believe that throughout 2021 a vaccine-led economic recovery will continue to strengthen our markets and provide growth opportunities going forward.

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

Paul McDermott – President & Chief Executive Officer

Thank you, Steve.

To conclude, we are pleased with the early signs of recovery that we are seeing across our multifamily and commercial portfolios. In multifamily, improving lease rates and declining concessions, combined with stable occupancy point toward continued NOI growth over the course of the year. Leasing momentum at Trove continues to grow and we expect Trove to be a key growth driver in 2022 and 2023. Our suburban portfolio continues to outperform and the pricing power that we are experiencing in our suburban markets combined with strong occupancy rates are positive early indicators for future renovations. We are also encouraged to see much stronger recent leasing momentum in our urban multifamily assets.

In commercial, renewal activity has been very strong, and tenants are becoming more comfortable making long-term renewal decisions. Year-to-date, we have achieved a significant reduction in 2021 expirations. New lease decision making appears to be picking up as evidenced by the long-term lease with a new accredited tenant at Arlington Tower and the increase in touring and proposal activity that we are experiencing heading into the spring and summer months. These are positive trends, and we are optimistic that this momentum will continue.

Now we would like to open the call to answer your questions.

Operator

Our first question is from Blaine Heck with Wells Fargo.

Q: I think last quarter, you talked about how the transaction side of things was relatively slow in that those multifamily properties that came to market either were highly competitive or have some sort of development or redevelopment component that could be risky. Are you seeing any signs of an increase in transactional volume? Do you think there will be any attractive properties that come to you guys at a reasonable price?

Paul McDermott – President & Chief Executive Officer

Well, let's start out with the volume that we're seeing that we've witnessed in the first quarter. We can talk about the capital markets and what we're observing there and then what the investor profiles are looking like.

The Q1 volume for multifamily was down. Everybody anticipated that because we were coming off a big fourth quarter in 2020. There's not as much product on the market right now. Our observation would be the real softness that we're seeing from the fourth quarter, partly into the first quarter was really in the urban core markets. That's being reflected in the lack of product out there. I talked with one of the more prominent brokers. They're definitely

seeing more in the suburbs. His quote was more grass and more trees, the better. We're probably down 25% to 30% from the first quarter of 2020 in terms of what we're seeing in the capital markets. Fannie and Freddie, their allocations were cut this year from \$80 billion to \$70 billion. And rates that we looked at that were in the mid-2s last summer are in the mid-3s today. I think life companies have really done a nice job stepping in and filling the gap on lower-levered trophy product.

Like we talked about on the last call, the debt funds are really playing that 65% to 70% LTV, mid 200s over LIBOR, seeing a lot of shorter-term product, a lot of 311s floating spreads, and that's probably pricing you about 2.5. But Fannie and Freddie did cut spreads on Monday. I heard they cut them 15 bps. They're trying to time that with what brokers pipelines, what we're hearing is that we're going to see more product Q2 through Q4 of this year. And that would probably be a portion, both urban and suburban. You're going to see a more push as we see more recoveries, as we see concessions burning off in that urban space. The value funds that are still trying to achieve 10 to 11 levered or probably looking at achieving 9 to 9.5. The folks that we're talking about and even how we're underwriting, looking out in the three-to-five-year time frame. You're going to see late '22, early 2023, folks underwriting more of a rent push, especially as supply pressure is coming off in this region in that 2023 to 2024.

We're continuing to look at every deal, both urban and suburban. I'd say the least amount of product we've seen has really been obviously, for TOPA reasons and the emergency restraints. We haven't really seen a lot or looked at a lot in D.C. But we're still continuing to look at product. It's going to vary submarket by submarket. We're definitely seeing suburban markets tighten up more than the urban, but we think the urban is coming. Our activity in our portfolio is bearing that out.

Q: That's very helpful commentary. Just switching really quick to the office side. It looks like from your presentation that you guys have now addressed the Sunrise, Raytheon and B. Riley upcoming expirations along with the new activity you guys have at Arlington Tower, all of which is very impressive in this environment. I think that just leaves Capital One at Silverline as your biggest upcoming expiration. Can you just talk a little bit more about the ongoing discussions with them?

Paul McDermott – President & Chief Executive Officer

Sure, we have Capital One through March of 2022. And we have been and are current actively marketing that space for other users. We have active interest, active tours, and we're happy with the foot traffic that we're seeing on that space.

Q: So that's a definite move out.

Paul McDermott – President & Chief Executive Officer

We're marketing it like we're assuming that they are going to vacate the space, and we're aggressively marketing it to backfill it as we speak.

Operator

Our next question is from Chris Lucas with Capital One Securities.

Q: Paul, just a couple of quick questions for you. On the apartment side, with the seasonality you typically see with spring and summer fall lease-up. Does the pandemic effect have a hangover effect on expectations as it relates to that seasonal push? Or is it sort of back to normal on that front?

Paul McDermott – President & Chief Executive Officer

In terms of the hangover from the pandemic, it's kind of like an accordion feature on the leasing season. I'll pick on Trove for example, when we thought that some of those months, we wouldn't be idle, but we wouldn't have the activity that we would currently have. The leasing season started earlier. There was a lot of pent-up demand, and we're now starting to see that. A lot of that dovetails with a vaccine deployment and folks starting to ready themselves to go back to work. Our season started earlier, and it will be more protracted beyond the traditional Labor Day, early fall.

Steve Riffe Executive Vice President & Chief Financial Officer

I'll just add our strategy coming off of the winter months of COVID-19 was to focus on occupancy. We talked about that at our year-end call, to get to the point where we could build up occupancy and start driving down concessions and improving effective rents. And we've seen that since quarter end as we've gotten into April, which is the early days of your traditional spring leasing season. And since quarter end, we've gotten occupancy up to over 90 I think it's hit 95.8 excluding the two rent controlled assets, over 95 touched 95.3 overall, including them, and then when you think about rates, which is what we really want to get as effective rates, just in the 30 days, looking about where we are in April, looking back, we've had overall effective rents already improved on a blended basis by 5%.

Even more importantly is when you look at the new rents, they're up over 6%. When you think about how we've managed our portfolio, we've intentionally driven the heaviest expirations into the spring and summer leasing seasons so that we can participate and then the new rents have a bigger effect. It's moving in the right direction in terms of the rates are trending I said in the in the prepared remarks that even after April, when we're looking at the leasing that we're doing and the early indications of transactions for May, lease commencements it's even improving over April, so we like that. Obviously, we're coming off of negatives, but it's moving very strong. We're only guiding through the second quarter right now, but this is the right quarter to be building the momentum.

Q: Paul, just on the restart of the renovation program. Just curious as to whether or not you're dealing with any supply chain issues as it relates to appliance, skilled labor, flooring cabinets, anything like that at this point? Or is it too early to say? Or how are you guys managing through some of those items that have come up as issues for others?

Paul McDermott – President & Chief Executive Officer

As you remember, we paused our renovation program, right when the pandemic hit. Now we are reactivating the process with the vendors. And obviously, we're renovating units that need renovation to be re-leased. But right now, to date, because the number has been so limited, we haven't really had any supply chain issues to speak of. In talking to developers that are doing ground up spec. I'm hearing of some delays. And then obviously, we're all observing pricing spikes in lumber and other materials. But we have not personally experienced anything yet. I would also say that we're evaluating each one of our submarkets on an individual basis and we are anticipating doing more renovations as we progress throughout 2021.

Q: As it relates to Riverside, you talked about the housing shortage, typically coming out of a recession, even one as unique as the pandemic. Construction costs tend to sort of moderate relative to sort of the heat that was coming into that the developers were experienced prior to the crisis. I'm curious as to how do you think about the timing of when you'll be evaluating that? And how that fits into your longer-term outlook there?

Paul McDermott – President & Chief Executive Officer

We evaluate it every quarter because we've got 1,200 cores there that are live ball, so to speak. Our renovation program there is an excellent litmus test in terms of when we would want to go in the ground. What we look for in the Riverside submarket is we want to see market rents stabilize and project some growth. And when we do that, that's when the discussions will obviously become much more granular in terms of start times. We were fully entitled, and the project was shovel ready. So we'll be able to act. The first thing we're looking for is some stabilization in that market and a positive forward look.

Operator

Our next question is from Anthony Paolone with JP Morgan.

Q: My first question, as it relates to just thinking about apartment assets and making investments there. It seems like a lot of the discussions around going-in cap rates in the threes. Is that something that you feel you can make sense of even if it has a decent trajectory upward? Or are you seeing things where maybe there's some slices to the market where you can go in at a better yield?

Paul McDermott – President & Chief Executive Officer

We're not seeing three-caps. I'm on a lot of national calls, and I'm seeing that in other parts of the country. We haven't really seen a three-cap deal. I think the broader question is will we go-to-market on underwriting and will we challenge product coming to the market, especially the value-add product that we like so much? The answer is yes. We underwrite to be competitive. But I also want to say the lens is a long-term value creation lens that we look through for our shareholders. Because of our research, we've identified the submarkets that we want to be in. We understand the growth metrics. I've seen a lot of people that have done deals in the last 12 months, kind of underwrite right through either rent caps or evictions or things like that and just assume it's not there. We've done our research. We know the markets that we want to be in and WashREIT has proven that it can be competitive when it comes time to put the pen to paper to go after transactions that we view as big value creation opportunities for our shareholders.

Q: And then on the other side, with some of the leasing that you've done in office. Does that tee up anything for sale that we should expect over the course of the year?

Paul McDermott – President & Chief Executive Officer

We're always looking at opportunities right now to create value for our shareholders. We will continue to monitor opportunities as they present themselves.

Q: Last one for me for, Steve. In your second quarter guidance, how should we think about things like garage income and that stuff that's been depressed because of the pandemic, what's in there versus, say, normal? Just trying to understand what the trajectory back might look like.

Steve Riffie – Executive Vice President & Chief Financial Officer

We didn't give that much detail, but we did give you an NOI expectation for the second quarter. It does include some improvement in transient parking income, We didn't break it out separately. We see that building. You can see people returning to work even before entire teams come to work now that people are being vaccinated. We've talked about the district has relaxed restrictions, allowing people to park on the street. That's being pulled back, which is forcing people in the garages. We're being a little more flexible and creative in our programs, offering monthly programs for transient parkers, daily programs, short term parking, not just monthly programs. We do have some of that build up in our NOI expectations for the second quarter.

Q: But still pretty far off from fully back, I'd presume?

Steve Riffie – Executive Vice President & Chief Financial Officer

Predicting exactly when everyone will return in full force is we think starts to happen in '21, but we're not really making that call. We don't think that parking gets to full levels pre-pandemic in the second quarter. But hopefully, it's building as we go throughout the year.

Operator

Our next question is from Daniel Ismail with Green Street.

Q: Just to follow-up on that last question. With parking activity rebounding or expected to rebound, are rates the same as they were pre-COVID, or has there been any change on that front?

Steve Riffie – Executive Vice President & Chief Financial Officer

We've done a little bit of discounting because we've got a lot of capacity. One of the things that we talked about in our parking is DC is a little bit different than the other gateway cities and that it's low-rise and not high-rise. And people will not universally, at the same pace, need to take public transit to get to work. You can drive more because we can park up to 50% of the building populations in our buildings, and we have about 50% capacity. So to help with income we've done some discounting and some creative things to pick up more parking revenue.

Q: Is that more of a moment in time type reaction? Or do you think there's likely some impairments going forward, even kind of post vaccination and post-COVID?

Steve Riffie – Executive Vice President & Chief Financial Officer

Well, you're asking me to guess what the inflection is going to look like post-COVID, but we haven't given a lot of guidance. If you ask me to guess, I think more people will drive that used to take public transit. And I think that will start to drive the demand. We'll be pretty competitive when we get to that point. I'm assuming we'll have pretty good pricing power.

Q: Last one for me on net effective rent on the office portfolio. I'm curious, in your submarkets, how much of those have changed year-over-year and if you're seeing any more upward pressure because of rising construction costs on the concession front?

Paul McDermott – President & Chief Executive Officer

I would say that pre-pandemic to now there's probably been a 5% to 10% discount on net effective rents in D.C., and that's real time, let's go 1Q. And then I would say in Northern Virginia, I want to say slightly negative, but the data would say that it's essentially been flat. I'm going off of the JLL data that I just saw yesterday, but I would say Northern Virginia is definitely holding up better.

Q: On that last question. Do you think you'll see kind of a filtering through of rising construction costs and concessions? Or do you think that will be mostly muted?

Paul McDermott – President & Chief Executive Officer

It really depends on what market you're talking about. In downtown D.C., especially for larger tenants with broader footprints, getting the space leased is the top priority. I think it is getting passed through on the concession. We're seeing TI numbers obviously increase, but I think landlords are going to do what they have to do to get these larger blocks of space leased.

Operator

And 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 over the next several months.