elme

2023 Annual Report

Elevating Home

Riverside | Alexandria, VA

2023 Highlights

- Delivered multifamily same-store NOI growth of 8.3% and total NOI growth of 9.4%
- Finalized our transition to Elme management, completing our internal infrastructure transformation
- Retained over 90% of our existing community team members during our transition to Elme Management from third-party operators
- Achieved same-store resident retention of 63% while capturing very strong same-store renewal lease rate growth of 6.2%
- Welcomed a new Chief Operating Officer, Tiffany Butcher
- Welcomed Susan Carras to our Board of Trustees, increasing our representation of women to half of our independent Trustees
- Completed the first phase of our Smart Home Technology Initiative
- Initiated operational initiatives focused on driving better profitability
- Acquired Elme Druid Hills, creating greater scale efficiency and further enhancing the growth outlook for the Atlanta portfolio
- Elevated residents' living experiences by renovating over 300 homes while achieving double-digit returns
- Maintained our strong, investment-grade balance sheet
- Progressed our commitment to sustainability
- Helped over 640 residents establish credit scores for the first time in 2023 through Esusu, which also provided nearly $300,000 of short-term housing loans to assist residents in need

Paul T. McDermott
President & Chief Executive Officer

Dear Fellow Shareholders,

As I reflect on the accomplishments of this past year, I do so with pride and excitement, acknowledging it as one of the most transformative periods in our company's history. From navigating market uncertainty to achieving the final phase of our infrastructure transformation, we have seized growth opportunities and overcome hurdles, paving the way for a new era of success. As we move forward, we reiterate our unwavering commitment to delivering value, sustained growth, and elevating the living experience for our residents.

Although we take great pride in our achievements, there is no denying that the capital markets landscape continued to present substantial challenges during 2023 and into 2024. Despite this, we made and continue to make substantive operational advancements. While we believe our stock performance does not reflect these operational improvements, the capital markets environment is improving, our balance sheet is well positioned, and the quality and long-term growth outlook for our multifamily portfolio is strong.

Operational Advancements

Bringing our community-level operations in-house was motivated by a vision for improved performance and dedication to providing unmatched value to our stakeholders. In today's dynamic real estate environment, the pace of innovation and adaptation has accelerated, requiring a proactive and aligned approach to community management. By streamlining internal processes and adopting new technologies with a resident-centric approach, we have implemented significant changes that underscore our commitment to delivering long-term value to our shareholders.

Elme onsite team

Over the past three years we have overhauled our internal structure by redesigning our technology platform, reshaping our human resources program, recruiting exceptional talent, designing and launching a brand that reflects our transformation and resident-focused strategy, and finally, in 2023, bringing community-level residential operations in-house from our third-party operators. Recognizing the pivotal role our people play in the company's success, our commitment to enhancing our employee value proposition has earned the trust of our community teams, and we are thrilled to welcome all new team members to Elme.

With the transition behind us, we now have the team and technology in place to take our platform to new levels of success. We believe that focusing on operational agility not only enhances efficiency and profitability but also enables us to drive better rent and occupancy growth than we would have otherwise been able to achieve.

Clayborne Apartments and The Ashby at McLean scored in the Elite 1% for online reputation driven by customer satisfaction.

Since we transitioned community-level operations to Elme management, we began capitalizing on new fee income opportunities, revised our vendor payment process to take advantage of rebates, identified opportunities to share resources and team members amongst communities that are located in close proximity, implemented new policies to reduce the number of days our apartment homes remain vacant as units turn, completed the first phase of our smart home technology rollout, and achieved interest expense savings by accessing rent payments earlier. We are also in the process of rolling out a new Artificial Intelligence platform that saves team members time by managing electronic communication with current residents, automating payment and collection efforts, and entering service requests. These AI capabilities add to our existing AI platform which saves team members time by interacting with prospective residents, providing our community team members with more time to focus on our current residents.

Looking forward, we are enthusiastic about the improvements that we are making and opportunities still ahead as we implement operational enhancements and utilize our new technology to enhance profitability, which we believe will lay the groundwork for above-market performance over the next several years.

Elme Watkins Mill | Gaithersburg, MD

Capital Allocation

Our capital allocation strategy is driven by a research-forward approach focused on long-term value creation. We aim to identify the vintages and price points that present the most robust long-term growth and value-creation opportunities within each of our existing and target markets. Our research into demographic trends highlights that apartments experience the deepest and most consistent demand at mid-range rents, which are affordable to the largest renter cohorts. Furthermore, our research into long-term rental rate growth indicates that consistent increases in rental income occur when a property's price point avoids direct competition with new developments. This strategy has positioned us well in the current environment. As the apartment market grapples with the repercussions of increased supply, we anticipate a lesser impact compared to portfolios with higher-end price points, as the gap between in place rent at our communities and new lease-ups in our submarkets remains greater than 30%, on average. Furthermore, the contrast with the cost of homeownership in our markets is even higher.

The durability of these gaps exists due to our acquisition discipline targeting communities well below market median price points and allocating capital into submarkets that are not as impacted by new supply.

In the Washington metro area, development is heavily concentrated in the region's core; over 80% of units under construction are inside the Capital Beltway, versus Elme's suburban Northern Virginia focus. In the Atlanta metro area, nearly 90% of new supply in 2024 is slated to be delivered outside of Elme submarkets.


Elme Conyers | Conyers, GA

Value-add renovations are an important source of earnings growth and a key driver behind shareholder value creation at Elme. By customizing the scope of each program to match the specific submarket and individual asset, our renovation programs maximize our return on investment by concentrating our spend on the most crucial improvements at a localized level. Our programs range from opportunistic renovations targeting a higher-end demographic to value-oriented renovations designed for value-conscious renters seeking quality housing at a lower price point compared to Class A communities. By executing renovations as units turn, we can minimize downtime, maximize revenue, and maintain the flexibility to adjust the pace of renovations in response to changes in the market environment.

With an approximate 3,300-unit renovation pipeline, representing 35% of our portfolio, we have more than enough runway to drive renovation-led value creation for the foreseeable future which should further support our goals of elevating the value-living experience for our residents and delivering above market growth and performance for our shareholders.

Geographic Expansion

Our capital allocation strategy is driven by making smart decisions that fuel long-term value creation, not just current earnings. With a dynamic economy, Atlanta presents a range of diverse, innovative industries we believe are poised to benefit from substantial job creation, rising wages, and continued migration in the coming years. Despite near-term challenges as the temporary impact of new supply is absorbed, we believe our expansion into Atlanta offers promising medium and long-term growth prospects.

In September 2023, we acquired Elme Druid Hills at a price that represents a 30% discount to replacement cost, strengthening our Atlanta footprint. We believe that this acquisition will demonstrate strong performance over time, driving sustained long-term shareholder value.


Elme Eagles Landing | Stockbridge, GA

Elme Druid Hills | Atlanta, GA

A rare find in a mature, affluent inside-the-perimeter location, Elme Druid Hills is situated on an expansive 50 acres, or 10 homes per acre, offering longer-term redevelopment options. The community directly aligns with our Class B value-add strategy and offers renovation potential on all 500 homes. Druid Hills is an affluent area with a growing job base, providing seamless accessibility to over 400,000 jobs within a 5-mile radius of the community, which includes over 40,000[1] medical jobs and draws from four major employment centers. It is near some of Atlanta's significant new medical developments, including Children's Healthcare of Atlanta North Druid Hills Campus and Emory Healthcare's Executive Park expansion, which have collectively generated over $3 billion in investments[2].

Including Elme Druid Hills, our Atlanta footprint has grown to over 2,300 homes. As we consider future acquisitions, the landscape has changed, and we have adapted our research-driven approach. We have improved our market selection methodology by integrating new technology and considering operational factors as our platform evolves, with the aim of identifying the optimal blend of location, price, and renovation/redevelopment potential.

[1]Esri's Business Analyst Online, Business Summary, dated March 18, 2024

[2]Emory University Executive Park webpage and Children's Healthcare of Atlanta Financials webpage

Elme Conyers | Conyers, GA

Envisioning the Future: Our Next Market Expansion

The profile of any future expansion markets will have a core set of commonalities: skilled labor development and in-migration, diverse economies with innovative industries, strong productivity and wage growth for middle income residents, and demand for affordable mid-market housing.

Our screening model includes factors from four key areas: demographics, local economy, real estate, and operations. Key demographic factors included in our weighing of market opportunities include population growth of our target cohorts by age and income range, net domestic migration, and regional educational attainment – both existing and projected increases. When evaluating local economies, we consider gross regional product and labor force growth as well as their volatility. Furthermore, industrial composition, wage growth and household income growth are considered. Real estate factors include historic and projected rents, supply/demand balance and their relative volatility. Additionally, affordability pressures on our target rents and affordability gaps between asset classes are analyzed. Operational factors such as climate risk and associated insurance rate growth, jurisdictional regulatory environment, and synergies with existing markets are also included. Together, these factors provide Elme with a comprehensive view of the strengths and weaknesses of markets and their potential to match our strategic market allocation objectives.

The Clayborne | Alexandria, VA

As we look to the future, we remain confident in our investment strategy and our ability to identify acquisition opportunities with strong long-term growth prospects in markets with a rising demand for affordable rental options. Capital discipline is paramount in today's capital markets environment, and we will only move forward with opportunities that we believe create long-term value for shareholders.

In addition to taking a prudent approach to underwriting, we firmly believe that maintaining financial flexibility is critical to our ability to drive long-term shareholder value. Balancing external growth with balance sheet strength has served us well, and we were able to grow our portfolio and further expand outside of the Washington metro area without sacrificing the strength of our balance sheet during 2023. With no secured debt and approximately 80% of our total capacity available on our line of credit at year-end, our balance sheet provides optionality, stability and opportunity as our cost of capital improves

Environmental, Social, Governance

Our commitment to ESG continues to be a core focus throughout our entire organization. We believe that this commitment is necessary to support not only our business, but also our stakeholders.

We continue to focus our environmental efforts on carbon reduction and supporting our residents in their own sustainability journeys. In the first quarter of 2023, new solar panel systems were connected at two of our multifamily communities in DC, supplying residents with approximately 600,000 kWh of clean energy while selling any excess to the local grid. Additionally, our electric vehicle charging stations across our portfolio provided over 30,000 kWh of electricity to residents.

Social aspects have been a key focus during our transformation, including the socioeconomic impact of our communities, holistic health and wellness of our employees and residents, and inclusivity and belonging within our workforce. Racially diverse employees at Elme Communities increased from 40% in 2022 to nearly 74% by the end of 2023. We also increased female representation in key positions, including our Board of Trustees, with women now representing half of our independent Trustees and 40% of our executive officers.

Yale West | Washington, DC

At our communities, we support our residents' overall wellbeing, including financial health. We partnered with a financial technology firm to report on-time rent payments to all three credit bureaus monthly, providing an opportunity for residents to build their credit scores while living in one of our communities. This program helped over 640 residents establish a credit score in 2023. In addition to credit reporting, Esusu offers interest-free housing stability loans for our residents experiencing financial hardship. Last year, this program was able to support over 140 individuals and families staying in their homes, with over $288,000 of rent support provided.

Additionally in 2023, five of our communities achieved Fitwel Health & Wellness Certification. Fitwel is one of the world's leading health and wellness certification programs within the real estate sector. Aspects and strategies of our communities that contributed to certification include, but are not limited to, increased walkability and bicycling opportunities, access to outdoor spaces, fitness facilities, indoor air quality practices, promotion of local amenities, and comprehensive emergency preparedness.

In 2023, our efforts within ESG initiatives and disclosures allowed us to increase our third-party ESG ratings across the board. Our MSCI ESG Rating went from "BBB" to "A", we achieved a "Prime" rating from ISS in terms of ESG performance, and we continue to be classified as "Low Risk" within the Sustainalytics ESG Risk Rating. Additionally, we completed our 10th year participating in the Global Real Estate Sustainability Benchmark (GRESB), but our first as a multifamily company. We proudly continued to achieve a Green Star status in our GRESB assessment, despite being in an entirely new peer set. This showcases our strength and depth in ESG regardless of our portfolio composition.

Outlook for 2024 and Beyond

We are enthusiastic about Elme's potential in 2024 and beyond as we intensify our efforts to optimize operations. Our Washington metro portfolio is in a favorable and defensive position at this stage of the year, and we expect it to be our primary NOI growth driver in 2024. Strong rent and occupancy performance from our Washington metro portfolio, coupled with favorable tailwinds related to our credit initiatives across the Washington metro and Atlanta metro portfolios, are expected to deliver same-store NOI growth of 0.25% to 2% in 2024. Following a year of strong market growth and strong performance at Elme, we believe that market growth is temporarily moderating in 2024 as new apartment supply peaks nationwide, and interest rates remain elevated. However, our operational progress is gaining momentum, and looking forward, we anticipate multiple years of above-market growth driven by revenue and expense initiatives.

We remain committed to our mission to elevate the living experience for the value-conscious renter, delivering on reliability, service, and innovation. We believe that providing a superior living experience for our residents will result in strong recurring results for our investors supported by stable demand for high-quality, well-located apartments that are affordable for mid-market renters.

We believe we remain on track to continue to deliver the operational upside that we communicated last year, with anticipated additional growth from initiatives that are still in the planning phases.

Over the longer-term, the consistency of our renter base and affordability of our rent levels to the largest segments of the renter market should support stable rent growth. We designed our strategy to benefit from the deep, solid, and underserved base of mid-market demand in markets that are constrained from providing new product to serve middle-income renters. Our mid-market rental rates are considerably lower than the monthly rents for newly delivered apartments in the same submarkets, placing them outside direct competition with new supply. Furthermore, there is an even wider gap compared to the monthly cost of homeownership in our markets making homeownership unaffordable for many, even those earning median income wages in our markets. This dynamic offers relative stability, especially during periods marked by above-average new apartment deliveries, as is the case today.

While macro uncertainty continues, we believe that the capital markets environment will improve over the course of the year as interest rates stabilize. As transaction activity brings greater clarity to real estate valuations, our current valuation should represent a compelling buying opportunity and we are committed to assessing every possible action to support stock price appreciation over the coming years.

As shareholders, your support continues to play a crucial role in driving our progress forward and I look forward to keeping you updated on our progress.

Paul T. McDermott
Chairman & Chief Executive Officer

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

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For fiscal year ended December 31, 2023

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

COMMISSION FILE NO. 001-06622

ELME COMMUNITIES

(Exact name of registrant as specified in its charter)

Maryland	**53-0261100**
(State of incorporation)	**(IRS Employer Identification Number)**

7550 WISCONSIN AVE, SUITE 900, BETHESDA, MD 20814

(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	Trading Symbol(s)	Name of each exchange on which registered
Shares of Beneficial Interest	ELME	NYSE

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of June 30, 2023, the aggregate market value of such shares held by non-affiliates of the registrant was $1,429,202,578 (based on the closing price of the shares on June 30, 2023).

As of February 13, 2024, 87,867,059 common shares were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our definitive Proxy Statement relating to the 2024 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission, are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K as indicated herein.

ELME COMMUNITIES

2023 FORM 10-K ANNUAL REPORT

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PART I

ITEM 1: BUSINESS

Elme Communities Overview

Elme Communities, a Maryland real estate investment trust, formerly known as Washington Real Estate Investment Trust (the "Company"), is a self-administered equity real estate investment trust ("REIT") and successor to a trust organized in 1960. Our business primarily consists of the ownership of apartment communities in the greater Washington, DC metro and Sunbelt regions. As of December 31, 2023, we owned 28 apartment communities and one office property.

Business and Investment Strategy

Our mission is to elevate the value living experience and create a place our residents are proud to call home by continuously focusing on service, efficiency, and innovation. We are focused on creating shareholder value by providing quality, affordably priced housing to a deep, solid, and growing base of mid-market demand. Our research indicates that affordability is a pressing rental issue at multiple price points across the mid-market rent spectrum. We believe that rents can be consistently grown if a portfolio's price point does not compete directly with new product price points and wages for mid-market renters are growing. Furthermore, as the cost of homeownership continues to rise above affordable levels for median income earners, we expect to benefit from sustained demand for quality, affordably priced rental housing.

We acquire, develop, and renovate apartment communities that align with our research-led investment strategy, which is focused on the following:

- targeting markets that have economies with diverse, innovative industries that drive outsized job creation, wage growth and in-migration, which we believe will benefit from these trends in the years to come;
- targeting middle-income renters who make up the largest share of apartment demand in each of our current and target markets but for whom new apartment supply and the cost of owning a home is unaffordable;
- executing value-add renovations that are tailored to each submarket, target renter group and individual community to provide an improved yet affordable living experience while enhancing shareholder value; and
- targeting investment opportunities that provide the potential for significant appreciation in value and that have operating upside through community management strategies.

Our research-focused approach enables us to craft optimal strategies to provide the best combination of value, quality, and resident experience in our apartment communities. We categorize our apartment communities among broader asset classes, as determined by a variety of factors, including the age of our buildings, rent growth drivers and rent relative to the market:

Class A

- Class A communities are recently developed and command rental rates above market median rents.
- Class A- communities have been developed within the past twenty years and feature operational improvements and unit upgrades and command rents at or above median market rents.

Class B

- Class B Value-Add communities feature operational improvements and strong potential for unit renovations. These communities, which are generally over twenty years old, command average rental rates below median market rents for units that have not been renovated.
- Class B communities feature operational improvements and command average rental rates below median market rents. Near-term rent growth is driven by operational improvements and market rent growth without unit renovations. These communities are over twenty years old and can become Class B Value-Add depending on future market rents and renovation opportunities.

Regional Real Estate Markets [(1)]

While we have historically focused our investments in the greater Washington, DC metro region, we expanded our footprint to the Atlanta metro region in 2021. Atlanta offers a range of diverse, innovative industries which we believe are poised to benefit from substantial job creation, rising wages, and continued migration in the coming years. As of December 31, 2023, we have acquired six apartment communities in the Atlanta metro region and we remain optimistic about the near and longer-term demand drivers in the Atlanta metro region.

Looking forward, we plan to continue to expand our footprint outside of the Washington, DC metro region. We intend to target markets with skilled labor development and in-migration, diverse economies with innovative industries, strong productivity and wage growth for middle income residents, and demand for affordable mid-market housing.

We believe our portfolio's allocation in the Atlanta and Washington, DC metro regions, and our focus on value-oriented price points, will help enable our future growth, while also providing relative insulation during economic downturns. Over the past five and 10-year periods, Class B rent growth has outperformed Class A in both of our operating markets. Additionally, our mid-market price points generally do not compete with new supply, as our average monthly rent is generally several hundred dollars below the asking rent for new deliveries. Moreover, the national cost of owning a home compared to renting a single-family starter home is the highest it's been in over 20 years. As housing remains undersupplied, interest rates remain high and the cost of homeownership remains unaffordable for many median-income households, we expect to benefit from sustained demand for quality, affordable rental options.

Washington, DC metro region (22 apartment communities)

In the fourth quarter of 2023, the Washington, DC metro region absorbed 1,600 units (the third highest 4th quarter performance on record for the Washington, DC metro region), as 4,000 units delivered concurrently. The rebound in demand in 2023 brought annual demand to 10,800 units, a top five performance nationwide. Despite healthy absorption, supply and demand remained imbalanced. As a result, occupancy ticked down 40 basis points over the year to 94.7%.

Effective asking rents declined 0.4% in the fourth quarter of 2023 compared to the third quarter of 2023, averaging $2,110 per month, or $2.39 per square foot, pushing annual rent growth down to 2.5%. Annual rent change, as of the fourth quarter of 2023, was highest among Class B multifamily properties at 3.7% with Class A multifamily properties trailing behind at 2.4%. Generally, rents grew most in low supply submarkets, whereas rent cuts were most common in higher supply areas. Occupancy remained strongest in Class B multifamily properties at 95.2%.

The Washington, DC metro economy is considered to be recession-resistant due to a high concentration of government and government-affiliated jobs. Annual job growth for the Washington, DC metro region, as reported by the U.S. Bureau of Labor Statistics was 1.4% or, 48,400 jobs as of November 2023, year-over-year. The RealPage Market Analytics apartment market outlook points to a heavy construction pipeline with 29,400 units currently under construction, of which 18,200 are planned for delivery over the next year. Given the projected pipeline, rent and occupancy performance are expected to vary across submarkets, with market-level readings that roughly match the national average in the coming two to three-year window.

Atlanta metro region (6 apartment communities)

In the fourth quarter of 2023, the Atlanta metro region absorbed 2,900 units (the fourth highest 4th quarter performance on record for the Atlanta metro region), as 5,400 units delivered concurrently. Quarterly occupancy in the market contracted 40 basis points year-over-year to about 92.3%. Annual demand rose to 9,700 units, a significant improvement from the annual net move-outs of 7,000 units recorded in the first quarter of 2023.

The Atlanta metro region recorded an annual rent cut of 4.7%, with effective asking rents averaging $1,628 per month, or $1.60 per square foot. Class C multifamily properties saw the steepest rent decline of 6.6% on average, followed by Class B multifamily properties with rent cuts of 4.3% on average, and Class A multifamily properties with rent cuts of 3.6% on average. All but one of Atlanta's 39 submarkets posted rent cuts on an annual basis.

Annual job growth for the Atlanta metro region as reported by the U.S. Bureau of Labor Statistics was 2.5%, or 76,500 jobs added as of November 2023, year-over-year. The RealPage Market Analytics apartment market outlook has 34,300 units currently under construction, of which 23,100 are planned for delivery over the next year. In the short term, rent change and occupancy are expected to remain muted and are expected to move closer to national norms in 2025, once the current supply wave moderates.

(1) The source of all regional market numerical data in this section is RealPage Market Analytics

Our Portfolio

As of December 31, 2023, we owned approximately 9,400 residential apartment homes in the Washington, DC metro and Sunbelt regions. We also owned approximately 300,000 square feet of commercial space in the Washington, DC metro region. The percentage of total real estate rental revenue from continuing operations by property type for the three years ended December 31, 2023, and the average occupancy for the year ended December 31, 2023, were as follows:

Average Occupancy, year ended December 31, 2023		% of Total Real Estate Rental Revenue		
		2023	2022	2021
95%	Residential	92 %	91 %	89 %
90%	Other	8 %	9 %	11 %
		100 %	100 %	100 %

Total real estate rental revenue from continuing operations for each of the three years ended December 31, 2023, was $227.9 million, $209.4 million and $169.2 million, respectively. During the three years ended December 31, 2023, we acquired six residential properties and placed one residential development project into service. During that same period, we sold twelve office properties and eight retail properties. See note 14 to the consolidated financial statements for further discussion of our operating results by segment.

No single tenant accounted for more than 5% of real estate rental revenue from continuing operations in any of the three years ended December 31, 2023.

In October 2022, we began a process to internalize our management operations, and this process was completed in July 2023. Prior to the completion of our management internalization, Bozzuto Management Company ("Bozzuto") and Greystar Real Estate Partners ("Greystar") provided community management and leasing services at the majority of our residential communities. Bozzuto and Greystar provided such services under individual community management agreements for each residential community, each of which was separately terminable by us or Bozzuto/Greystar, as applicable. Although they varied by community, on average, the fees charged by Bozzuto/Greystar under each agreement were approximately 3% of revenues at each residential community. As of December 31, 2023, we have transitioned all of our residential communities to Elme management. Stream Realty Partners ("Stream") provides property management and leasing services at our sole office property, Watergate 600.

We make capital improvements to our properties on an ongoing basis for the purpose of maintaining and increasing their value and income. Major improvements and/or renovations to the properties during the three years ended December 31, 2023 are discussed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, under the heading "Capital Improvements and Development Costs."

Further description of the properties is contained in Item 2, Properties, and note 14 to the consolidated financial statements, Segment Information, and in Schedule III. Reference is also made to Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Environmental, Social and Governance

At Elme Communities, our Environmental, Social and Governance ("ESG") strategy is to operate and grow in a sustainable, responsible manner that contributes to positive economic, social, and environmental outcomes for shareholders, employees, and the communities in which we serve. We intend to continue providing an annual ESG report that includes disclosures aligned with Global Reporting Initiative Standards 2016, the United Nations Sustainable Development Goals, the Sustainability Accounting Standards Board and the Task Force on Climate-Related Financial Disclosures. This report can be found online at https://www.elmecommunities.com/esg/. The reference to our website address does not constitute incorporation by reference of the information contained in the website and such information should not be considered part of this document.

Environmental

In 2021, we announced our commitment to net zero carbon operation in alignment with the Urban Land Institute's Greenprint Net Zero by 2050 Goal. In 2023, we joined the U.S. Department of Energy (DOE) Better Climate Challenge, further aligning greenhouse gas emission reduction with industry leaders. Meeting this goal requires that we fully integrate a focus on carbon reductions into our strategic approach and at all levels of our organization throughout our portfolio.

We implement sustainable policies and practices at all of our properties, for purposes of ensuring occupants and residents work and live in efficient, healthy spaces. We track annual asset-level performance of energy use, greenhouse gas emissions, and water consumption, utilizing ENERGY STAR Portfolio Manager as well as Measurabl ESG software. We apply industry standard rating systems such as the Leadership in Energy and Environmental Design ("LEED") and Building Research Establishment Environmental Assessment Method ("BREEAM") to establish sustainable practices for building design, construction, operations, and maintenance. During unit renovations, we replace end-of-life appliances with ENERGY STAR rated equipment; heating, ventilation, and air conditioning systems with more efficient models; as well as update water fixtures to low-flow options. Additionally, we continue to expand our electric vehicle charging stations across our portfolio to support the transition of our residents to electric transportation.

Social

Among our social initiatives is a commitment to financial inclusion, pursuant to which we aim to increase the availability and equality of financial service opportunities, remove barriers to the financial sector, and enable individuals to improve their financial wellbeing. Beyond credit history, life-altering events can interrupt a resident's ability to pay rent, including job loss, medical emergencies, domestic violence, and other hardships. This can lead to delinquencies, increased interest rate debt, potential eviction, and situational unhousing.

In 2022, we announced a partnership with a financial technology company to dismantle barriers to housing for working families. Through this partnership, on-time rent payments are reported monthly to all three credit bureaus, providing an opportunity for residents to build their credit. This no-cost amenity is available to 100% of our community residents. This initiative follows a "do no harm" mindset. Therefore, only on-time payments—not delinquencies—are reported.

In addition to credit reporting, our technology partner's platform offers housing stability loans for residents experiencing financial hardship. These interest-free loans provide up to three months of rent relief, enabling residents to remain housed during difficult times. Residents can then work with our technology partner to set up a 12-month repayment plan for the loan.

These programs support the short- and long-term financial well-being of our residents.

In addition to financial wellness, we support our residents physical and mental health and wellness through on-site amenities such as gymnasiums, pools, playgrounds, and community rooms, as well as close access to bike lanes, walking/running paths, parks, and other outdoor amenities. In 2023, we certified our first five communities to Fitwel Health and Wellness. The certification is awarded to buildings that promote occupant health and well-being by incorporating a number of evidence-based design and operations strategies that support the physical, mental, and social health of occupants.

Governance

At Elme, we hold ourselves, our suppliers, and the Board of Trustees (the "Board") to high ethical standards as we seek to increase shareholder value and foster a collaborative, innovative corporate culture. Our team is required to read and certify their knowledge on our Code of Ethics, in addition to receiving ethics training throughout the year. Our Board is responsible for corporate policy and management oversight to enhance long-term shareholder value. In 2020, our Board formalized the oversight of ESG initiatives, recognizing that environmental and social matters—together with strong corporate governance—play a critical role in the execution of our ESG strategy.

Some of our ESG policies, including our Human Rights Policy, Vendor Code of Conduct, and Environmental Sustainability Policy, can be found on our website at elmecommunities.com/esg/governance/.

We are made up of growth-oriented, hardworking individuals dedicated to transforming creative ideas into decisive action. Our flat organizational structure facilitates frequent, meaningful interactions with Company executives, and our commitment to teamwork and entrepreneurial spirit enables employees at every level to conceptualize ideas and make them happen. We create an environment designed to encourage people to do what they do best, all while learning, growing, and contributing in meaningful ways to build a better company. We trust, encourage, and support one another, driving our pursuit of excellence.

Human Capital

Employees, Training and Development

On February 13, 2024, we had 243 employees, including 175 persons engaged in community management functions who were hired in connection with the internalization of our community management functions, and 68 persons engaged in corporate, financial, asset management and other functions. Of the 175 persons engaged in community management functions, 44 are employed in the Atlanta metro region at six different communities, with the remainder in the Washington, DC metro region. All of our officers and substantially all of our corporate-level employees live and work in or near the greater Washington, DC metro region, and our community management employees live and work in or near their respective communities.

Our human capital resources objectives include identifying, recruiting, retaining, incentivizing and integrating our new and existing employees. At Elme Communities, we place great value on employee growth through goals, feedback and professional and leadership development offerings. Our human resources team provides ongoing training and development opportunities to all employees. We financially support employees pursuing industry-specific training and certification programs and we encourage employees to join professional organizations that offer technical, soft skill and leadership development workshops.

Additionally, our compensation programs are designed to attract, retain and reward our workforce, with the goal of motivating employees to perform to the best of their abilities and achieve our objectives, including increasing shareholder value.

Health, Safety and Well-being

We support our employees with a robust and competitive employee benefits program, including a flexible vacation policy, parental leave, 401(k) matching, tuition reimbursement, an Employee Assistance Program, and other programs.

Additionally, we have a wellness program that provides fun, engaging challenges to encourage employees to continuously improve their physical, mental, and financial well-being. In our corporate office, we offer two wellness rooms for employees to take a break to decompress.

Our technological capabilities allow our corporate-level employees the flexibility to work from anywhere at any time. This allows us to easily meet our residents’ needs as well as those of our employees.

Diversity, Equity, Inclusion and Accessibility

Our Diversity, Equity, Inclusion, and Accessibility Initiative ("DEIA") is a long-term commitment to promoting an environment where each individual feels comfortable being their most authentic selves. We believe diversity of backgrounds, experiences, cultures, ethnicities, and interests leads to new ways of thinking and drives engagement and organizational success. Our diverse Cultural Advisory Board ("CAB") is overseen by our senior leadership team and our Board. The CAB tracks and monitors our diversity metrics and facilitates learning and training opportunities, including a diversity speaker series, targeted recruitment and relationship development with diverse industry groups for internships and employment opportunities and partnering with community-based non-profits for volunteer activities.

Community Engagement

As a REIT, investing is at the core of what we do, but the most valuable investments we make are not in our buildings but in our people and our community. We are passionate about making a difference in the regions we call home.

We are committed to improving the lives of those in need, and our employees participate in a wide variety of philanthropic activities throughout the year. Whether volunteering at a food bank, running a toy drive, walking for a cause, or participating in our company-wide community service day, we are proud to foster a culture of giving back.

Regulation

REIT Tax Status

We believe that we qualify as a REIT under Sections 856-860 of the Internal Revenue Code of 1986, as amended (the "Code"), and intend to continue to qualify as such. To maintain our status as a REIT, we are, among other things required to distribute 90% of our REIT taxable income (determined before the deduction for dividends paid and excluding net capital gains), 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 of the 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.

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 subsidiary. Our taxable REIT subsidiary is subject to corporate U.S. federal, state and local income tax on its taxable income at regular statutory rates (see note 1 to the consolidated financial statements for further disclosure).

Americans with Disabilities Act ("ADA")

The properties in our portfolio must comply with Title III of the ADA, to the extent that such properties are “public accommodations” as defined by the ADA. The ADA may require removal of structural barriers to access by persons with disabilities in certain public areas of our properties where such removal is readily achievable. We believe that our properties are in substantial compliance with the ADA and that we will not be required to make substantial capital expenditures to address the requirements of the ADA. However, noncompliance with the ADA could result in an imposition of fines or an award of damages to private litigants. The obligation to make readily accessible accommodations is an ongoing one, and we will continue to assess our properties and make alterations as appropriate in this respect.

Fair Housing Act ("FHA")

The FHA, its state law counterparts and the regulations promulgated by the U.S. Department of Housing and Urban Development and various state agencies, prohibit discrimination in housing on the basis of race or color, national origin, religion, sex, familial status (including children under the age of 18 living with parents or legal custodians, pregnant women and people securing custody of children under 18) or handicap (disability) and, in some states, financial capability or other bases. A failure to comply with these laws in our operations could result in litigation, fines, penalties or other adverse claims, or could result in limitations or restrictions on our ability to operate, any of which could materially and adversely affect us. We believe that we operate our properties in substantial compliance with the FHA.

Environmental Matters

We are subject to numerous federal, state and local environmental, health, safety and zoning laws and regulations that govern our operations, including with respect to air emissions, wastewater, and the use, storage and disposal of hazardous and toxic substances and petroleum products. The cost to comply with such laws and regulations may be significant, and such laws may become more stringent over time. If we fail to comply with such laws, including if we fail to obtain any required permits or licenses, we could face substantial fines or possible revocation of our authority to conduct some of our operations.

In addition, under various federal, state and local laws and regulations relating to the environment, as a current or former owner or operator of real property, we may be liable for costs and damages resulting from the presence or discharge of hazardous or toxic substances, waste or petroleum products at, on, in, under, or migrating from such property, including costs to investigate and remediate such contamination and liability for natural resources damage. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such contamination, and the liability may be joint and several. In addition, we also may be liable for the costs of remediating contamination at off-site waste disposal facilities to which we have arranged for the disposal or treatment of hazardous substances, without regard to whether we complied with environmental laws in doing so. These liabilities for remediation could be substantial and the cost of any required remediation, fines, or other costs could exceed the value of the property and/or our aggregate assets. In addition, the presence of contamination or the failure to remediate contamination at our properties may expose us to third-party liability for costs of remediation and/or bodily injury or property damage or materially adversely affect our ability to sell, lease or develop our properties or to borrow using the properties as collateral. In addition, environmental laws may create liens on contaminated sites in favor of the government for damages and costs it incurs to address such contamination. Moreover, if contamination is discovered on our properties, environmental laws may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require substantial expenditures.

Availability of Reports

Copies of this Annual Report on Form 10-K, as well as our Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to such reports are available, free of charge, on our website www.elmecommunities.com. All required reports are made available on the website as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission. The reference to our website address does not constitute incorporation by reference of the information contained in the website and such information should not be considered part of this document.

The Securities and Exchange Commission maintains a website (*http://www.sec.gov*) that contains reports, proxy statements, information statements, and other information regarding issuers that file electronically with Securities and Exchange Commission.

ITEM 1A: RISK FACTORS

Set forth below are the risks that we believe are material to our shareholders. We refer to the shares of beneficial interest in Elme Communities as our "common shares," and the investors who own shares as our "shareholders." This section includes or refers to certain forward-looking statements. You should refer to the explanation of the qualifications and limitations on such forward-looking statements beginning on page 42.

Risks Related to our Business and Operations

We may be unable to successfully expand our operations into new markets and submarkets, which could have a material adverse effect on us, the trading price of our shares and our ability to make distributions to our shareholders.

We intend to further expand our residential platform through acquisitions in Sunbelt markets. Our current targeted expansion markets include Atlanta, Georgia, Raleigh/Durham, North Carolina, Charlotte, North Carolina and Dallas-Fort Worth, Texas. Between 2021 and 2023, we acquired six apartment communities in the Atlanta metro region and plan to continue to invest in the Sunbelt region in 2024 and beyond. However, our historic operations have been concentrated in the Washington DC, metro region, where we have expertise in acquiring and operating assets. The risks applicable to our ability to acquire, integrate and operate apartment communities in the Washington DC, metro region are also applicable to our ability to acquire, integrate and operate apartment communities in new markets. In addition to these risks, we will not possess the same level of familiarity with the dynamics and market conditions of any new markets that we have entered or that we may enter as we do with the Washington, DC market, which could adversely affect our ability to expand and success in expanding into those markets. Furthermore, we may be unable to build a significant market presence or achieve a desired return on our investments in communities in new markets. The occurrence of any of the foregoing risks could have a material adverse effect on us, the trading price of our shares and our ability to make distributions to our shareholders.

Our performance and value are subject to risks associated with our apartment communities and with the real estate industry, which could adversely affect our cash flow and ability to make distributions to our shareholders.

Our financial performance and the value of our apartment communities are subject to the risk that they do not generate revenues sufficient to meet our operating expenses, debt service and capital expenditures, which could cause our cash flow and ability to make distributions to our shareholders to be adversely affected. Any of the following factors, among others, may adversely affect the cash flow generated by our apartment communities and ability to make distributions to our shareholders:

- a decrease in demand for rental properties over home ownership resulting from, among other reasons, resident preferences, decreases in housing prices and mortgage interest rates, and government programs to promote home ownership or subsidize rental housing, slow or negative employment growth and household formation;
- competition with other housing alternatives, including owner occupied single and residential apartment homes;
- a return of the availability of low-interest mortgages or the availability of mortgages requiring little or no down payment for single family home buyers;
- declines in the financial condition of our residents;
- significant job losses in the regions in which we operate;
- changes in interest rates and availability of financing;
- economic and market conditions including: migration to areas outside of major metropolitan areas where our portfolio is concentrated, new construction and excess inventory of residential and owned housing/condominiums, increasing portions of owned housing/condominium stock being converted to rental use;
- the effects of government regulation in the real estate industry;
- our ability to integrate new technological innovations into our properties to attract residents;
- our ability to attract and retain qualified personnel with knowledge of the market; and
- political conditions, civil disturbances, earthquakes and other natural disasters, terrorist acts or acts of war and actual or anticipated geopolitical instability.

Substantially all of our investments are concentrated in the multifamily asset class, which make us more vulnerable to a downturn in that asset class and could adversely affect our results of operations.

As of December 31, 2023, substantially all of our investments are concentrated in the multifamily industry, and we are subject to risks inherent in investments in a single type of property. A downturn or slowdown in the demand for multifamily housing may have more pronounced effects on our results of operations or on the value of our assets than when we had investments in more than one asset class.

Additionally, the multifamily industry is also highly competitive. We compete with many other entities engaged in real estate investment activities, including individuals, corporations, bank and insurance company investment accounts, other REITs, real estate limited partnerships, and other entities engaged in real estate investment activities. Many of these entities have significant financial and other resources, including operating experience, allowing them to compete effectively with us. Competitors with substantially greater financial resources than us may be able to accept more risk than we can effectively manage. In addition, those competitors that are not REITs may be at an advantage to the extent they can use working capital to finance projects, while we (and our competitors that are REITs) may have to forgo and/or liquidate otherwise attractive investments as we must comply with REIT requirements. These actions could have the effect of reducing our income and amount available for distribution to shareholders. Thus, compliance with REIT requirements may hinder our ability to make, or, in certain cases, maintain ownership of, certain attractive investments.

Competition may also result in overbuilding of multifamily properties, causing an increase in the number of multifamily units available which could potentially decrease occupancy and multifamily rental rates at our properties. We may also be required to expend substantial sums to attract new residents. These factors may cause the resale value of properties to be diminished because the market value of a particular property will depend principally upon the net revenues generated by the property. Further, costs associated with real estate investment generally are not reduced when circumstances, such as a pandemic, cause a reduction in income from the investment.

Each of these factors could possibly limit our ability to retain our current residents, attract new ones or increase or maintain rents, which could lower the value of our properties and adversely affect our results of operations and our financial condition.

Macroeconomic trends, including inflation and rising interest rates, may adversely affect our cash flow, financial condition and results of operations.

Macroeconomic trends, including increases in inflation and rising interest rates, may adversely impact our business, financial condition and results of operations. In recent years, inflation in the United States has risen to levels not experienced in recent decades, including rising energy prices, prices for consumer goods, interest rates and wages. These increases and any interventions, fiscal or otherwise, by the U.S. government in reaction to such events could negatively impact our business by increasing our operating costs and borrowing costs as well as decreasing the cash available to our residents and tenants and prospective residents and tenants who wish to rent in our communities. Although we expect to be able to increase rent to combat the effects of inflation, the cost to operate and maintain communities could increase faster or at a rate greater than our ability to increase rents that residents and tenants would be willing to pay, which could adversely affect our results of operations. Additionally, a decline in the market value of real estate in the regions in which we operate may result in the carrying value of certain real estate assets exceeding their fair value, which has recently and in the future may require us to recognize an impairment to those assets. For example, we recognized an impairment in the third quarter of 2023 on our sole remaining office property, Watergate 600. Also, if prevailing interest rates or other factors, such as the reluctance of lenders to make commercial real estate loans or the loss of the benefits of hedging arrangements, results in higher interest rates on our indebtedness, the increased interest expenses would adversely affect our cash flow, financial condition, and results of operation.

We are currently dependent upon the economic and regulatory climate of the Washington, DC and Atlanta metro regions, which may impact financial condition and results of operations.

As of December 31, 2023, 75% of our residential apartment homes were located in the Washington, DC metro region and 25% of our residential apartment homes were located in the Atlanta, Georgia metro region. While we intend to continue expansion of our platform in the Sunbelt region, our current concentration in just two geographic metro regions may expose us to a greater amount of market-dependent risk than if we were more geographically diverse. Our performance could be adversely affected by the economic conditions in, and other factors relating to, these two geographic areas, including zoning and other regulatory conditions, competition for residents and supply and demand for apartment in these regions, as well as unemployment and job growth. Additionally, in the Washington, DC and Atlanta metro regions, general economic conditions and local real estate conditions are dependent upon various industries that are predominant in the area (such as, in Washington, D.C., government and professional/business services). A downturn in one or more of these industries may have a particularly strong effect on the economic climate of the region. We are also susceptible to adverse developments in the regulatory environment of any of the markets in which we operate, particularly Washington, D.C., such as increases in real estate and other taxes, the costs of complying with governmental regulations or increased regulations, including zoning and tax laws, and actual or threatened reductions in government spending and/or changes to the timing of government spending, as has occurred during federal government shutdowns. To the extent that these markets become less desirable to operate in, our results of operations could be more negatively impacted than if we were more geographically diversified. In the event of negative economic and/or regulatory changes in the regions in which we operate, we may experience a negative impact to our financial condition and results of operations.

Short-term leases expose us to the effects of declining market rents sooner than long-term leases, which could adversely affect our cash flow, results of operations and financial condition.

Substantially all of our apartment leases are for a term of one year or less. Because these leases generally permit the residents to leave at the end of the lease term without penalty, our rental revenues are impacted by declines in market rents sooner than if our apartment leases were for longer terms. Additionally, if the terms of a renewal or reletting are less favorable than current terms, then our results of operations and financial condition could be negatively affected. For each of the three years ended December 31, 2023, the same-store residential resident retention rate for each year's respective same-store community portfolio, was 63%, 63%, and 60%, respectively.

Expenses may increase or remain constant even if our revenues decrease.

The expense of owning and operating a property is not necessarily reduced when circumstances such as market factors and competition cause a reduction in income from the property or an increase in operating costs. As a result, if revenues drop, we may not be able to reduce our expenses accordingly. Loan payments are an example of a cost that will not be reduced if our revenues decrease. If a property is mortgaged and we are unable to meet the mortgage payments, the lender could foreclose on the mortgage and take the property, resulting in a further reduction in revenues.

The risks related to our commercial operations could adversely impact our results of operations and financial condition.

Although we are primarily in the residential rental business, we also own ancillary commercial space, primarily within our apartment communities, and own one office building that we lease to third parties. Gross rental revenue provided by leased commercial space in our portfolio represented 8% of our real estate rental revenue from continuing operations in 2023. The long term nature of our commercial leases and characteristics of many of our tenants (generally small, local businesses) may subject us to certain risks, such as difficulties or delays in reletting this commercial space and in achieving desired rental rates, the cost of allowances and concessions to tenants, which may be less favorable than current terms, a failure rate of small, local business that may be higher than average and competition with other commercial spaces, which may affect our ability to lease space and the level of rents we can obtain. Additionally, if our commercial tenants experience financial distress or bankruptcy, they may fail to comply with their contractual obligations, seek concessions in order to continue operations or cease their operations. Each of these factors could adversely impact our results of operations and financial condition.

Real estate investments are illiquid, and we may not be able to sell our properties on a timely basis when we determine it is appropriate to do so, which could negatively impact our profitability.

Real estate investments can be difficult to sell and convert to cash quickly, especially if market conditions are not favorable. Such illiquidity could limit our ability to quickly change our portfolio of properties in response to changes in economic or other conditions. Moreover, the REIT tax laws require that we hold our properties for investment, rather than primarily for sale in the ordinary course of business, which may cause us to forego or defer property sales that otherwise would be in our best interest. Due to these factors, we may be unable to sell a property at an advantageous time or on the terms anticipated which could negatively impact our profitability.

Rent control or rent stabilization legislation and other regulatory restrictions may limit our ability to increase rents and pass through new or increased operating costs to our residents.

Jurisdictions in which we own property have adopted, or may in the future adopt, laws and regulations imposing restrictions on the timing or amount of rent increases or have imposed regulations relating to low- and moderate-income housing. Such laws and regulations limit our ability to charge market rents, increase rents or evict residents at our apartment communities and could make it more difficult for us to dispose of properties in certain circumstances. Similarly, compliance procedures associated with rent control statutes and low- and moderate-income housing regulations could have a negative impact on our operating costs, and any failure to comply with low- and moderate-income housing regulations could result in the loss of certain tax benefits and the forfeiture of rent payments. In addition, such low- and moderate-income housing regulations often require us to rent a certain number of homes at below-market rents, which has a negative impact on our ability to increase cash flows from our residential properties subject to such regulations. Furthermore, such regulations may negatively impact our ability to attract higher-paying residents to such properties. As of December 31, 2023, four of our residential properties, each located within the Washington, DC metro region, were subject to such regulations.

Our business and reputation depend on our ability to continue to provide high quality housing and consistent operation of our communities, the failure of which could adversely affect our business, financial condition and results of operations.

Our business and reputation depend on providing our residents with quality housing including a wide variety of amenities such as covered parking, swimming pools, fitness facilities and similar features, highly reliable services, including water and electric power and the consistent operation of our communities. The delayed delivery or any material reduction or prolonged interruption of these services may cause residents to terminate their leases or may result in a reduction of rents and/or increase in our costs or other issues. In addition, we may fail to provide quality housing and continuous access to amenities, including as a result of government mandated closures due to health concerns, mechanical failure, power outage, human error, vandalism, physical or electronic security breaches, war, terrorism and similar events. Such service interruptions, closures, mechanical failures or other events may also expose us to additional liability claims and damage our reputation and brand and could cause current residents to terminate or not renew their leases, and prospective residents to seek housing elsewhere. Any such failures could impair our ability to continue providing quality housing and consistent operation of our communities, which could adversely affect our business, financial condition and results of operations.

We face risks associated with property development/redevelopment, which could have an adverse effect on our financial condition, results of operations or ability to satisfy our debt service obligations.

We may, from time to time, engage in development and redevelopment activities, some of which may be significant. Developing or redeveloping properties presents a number of risks for us, including risks relating to necessary permitting, risks relating to development and construction costs and/or permanent financing, environmental remediation, timeline disruptions and demand for the completed property.

Properties developed or acquired for development may generate little or no cash flow from the date of acquisition through the date of completion of development and commencement of leasing activity. In addition, new development activities, regardless of whether or not they are ultimately successful, may require a substantial portion of management's time and attention.

These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken. Some of these development/redevelopment risks may be heightened given uncertain and potentially volatile market conditions. If market volatility causes economic conditions to remain unpredictable or to trend downwards, we may not achieve our expected returns on properties we develop and we could lose some or all of our investments in those properties. In addition, the lead time required to develop, construct, and lease-up a development property may increase, which could adversely impact our projected returns or result in a termination of the development project. The materialization of any of the foregoing risks could have an adverse effect on our financial condition, results of operations or ability to satisfy our debt service obligations.

Corporate social responsibility, specifically related to ESG matters, may constrain our business operations, impose additional costs and expose us to new risks that could adversely impact our results of operations and financial condition and the price of our securities.

Environmental, social and governance matters have become increasingly important to investors and other stakeholders. Certain organizations that provide corporate risk and corporate governance advisory services to investors have developed scores and ratings to evaluate companies based upon ESG metrics. Many investors focus on ESG-related business practices and scores when choosing where to allocate their investments and may consider a company's score as a factor in making an investment decision. The focus and activism related to ESG and related matters may constrain our business operations or increase expenses. Additionally, if our corporate responsibility procedures or standards do not meet the standards set by various constituencies, we may face reputational damage. There can be no assurance of how we will score on the ESG metrics used by such advisory organizations in the future, particularly since the criteria by which companies are rated for their ESG efforts may change. A low ESG score could result in a negative perception of the Company, exclusion of our securities from consideration by certain investors and/or cause investors to reallocate their capital away from the Company, each of which could have an adverse impact on the price of our securities.

As we continue to invest and focus on ESG efforts and initiatives that we believe are appropriate for the Company and our shareholders, we could also be criticized by ESG detractors for the scope or nature of our ESG initiatives or goals. We could also be subjected to negative responses by governmental actors (such as anti-ESG legislation or retaliatory legislative treatment), tenants and residents, that could adversely affect our reputation, financial condition and results of operations.

We face risks associated with property acquisitions.

We may acquire properties and expand into new markets which would increase our size and geographic diversity and could alter our capital structure. In addition, our acquisition activities and results may be exposed to the following risks:

- we may have difficulty finding properties that are consistent with our strategies and meet our standards;
- we may be unable to finance acquisitions on favorable terms or at all;
- the occupancy levels, lease-up timing and rental rates of acquired properties may not meet our expectations;

- even if we enter into an acquisition agreement for a property, we may be unable to complete that acquisition after making a non-refundable deposit and incurring certain other acquisition-related costs;
- we may be unable to acquire a desired property at all or at the desired purchase price because of competition from other real estate investors, including publicly traded real estate investment trusts, institutional investment funds and private investors;
- the timing of property acquisitions may lag the timing of property dispositions, leading to periods of time where projects' proceeds are not invested as profitably as we desire;
- we may fail to secure required zoning, occupancy or other governmental permits and authorizations or applicable zoning and land use laws may change;
- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations;
- new acquisitions and developments may fail to perform as expected or we may underestimate costs necessary to bring an acquired property up to our standards;
- we may assume liabilities for undisclosed environmental contamination;
- our estimates of capital expenditures required for an acquired property, including the costs of repositioning or redeveloping, may be inaccurate and the acquired properties may fail to perform as we expected in analyzing our investments; and
- we could experience a decline in value of the acquired assets after acquisition.

In addition, our financing of an acquisition could negatively impact our cash flows and liquidity, require us to incur substantial debt or involve the issuance of new equity, which would be dilutive to existing stockholders. We may also acquire properties subject to liabilities and without recourse, or with limited recourse with respect to unknown liabilities. As a result, if liability were asserted against us based upon the acquisition of a property, we may have to pay substantial sums to settle it, which could adversely affect our cash flow.

We may suffer economic harm as a result of the actions of our partners in real estate joint ventures and other investments which may adversely affect our financial condition, results of operations, cash flows and ability to make distributions to our shareholders.

We may from time to time invest in joint ventures in which we are not the exclusive investor or the only decision maker. Investments in such entities may involve risks not present when a third party is not involved, including the possibility that the other parties to these investments may have business interest or goals that are inconsistent with our own, including for example, whether to sell or retain joint venture properties or interests, become bankrupt or fail to fund their share of required capital contributions. In some instances, joint venture partners may have competing interests that could create conflicts of interest, including compliance with the REIT requirements, and our REIT status could be jeopardized if any of our future joint ventures do not operate in compliance with the REIT requirements. To the extent our joint venture partners do not meet their obligations to us or they act inconsistent with our interests in the joint venture, we may be adversely affected.

Climate change and regulation regarding climate change in the regions in which we operate may adversely affect our financial condition, results of operations, cash flows, per share market price of our common shares and our ability to satisfy our principal and interest obligations and to make distributions to our shareholders.

Climate change (including rising sea levels, flooding, prolonged periods of extreme temperature or other extreme weather, and changes in precipitation and temperature), may result in physical damage to, a decrease in demand for and/or a decrease in rent from and value of our properties located in the areas affected by these conditions (particularly in areas closer to coasts). Additionally, our insurance premiums may increase as a result of the threat of climate change or the effects of climate change may not be covered by our insurance policies.

Changes in U.S. federal and state legislation and regulations on climate change could result in utility expenses and/or capital expenditures to improve the energy efficiency of our existing properties or other related aspects of our properties in order to comply with such regulations or otherwise adapt to climate change. The U.S. government and various state agencies have introduced or are contemplating regulatory changes in response to the potential impact of climate change, including legislation regarding green-house gas emissions and renewable energy targets. Any such regulation regarding climate change may require unplanned capital improvements and increased engagement by our employees. Any adopted future climate change regulations could negatively impact our ability to compete with companies not subject to such regulations. From a medium and long-term perspective, as a result of these regulatory initiatives, we may see an increase in costs relating to any owned or future properties and failure to meet certain performance standards could result in fines for non-compliance, a decrease in demand and a decline in the value of our properties. As a result of these and other regulations, our financial condition, results of operations, cash flows, per share market price of our common shares and our ability to satisfy our principal and interest obligations and to make distributions to our shareholders could be adversely affected.

Actual or threatened acts of violence, including terrorist attacks, may adversely affect our ability to generate revenues and the value of our properties.

Actual or threatened acts of violence, including terrorist attacks and increased crime rates, resulting in more safety and security incidents, could occur in the localities in which we conduct business. As a result, some residents in our markets may choose to relocate to other markets. This could result in an overall decrease in the demand for such markets generally, which could increase vacancies or impact rental rates in our properties. In addition, future acts of violence or terrorist attacks could directly or indirectly damage our properties, both physically and financially, or cause losses that materially exceed our insurance coverage. As a result of the foregoing, our ability to generate revenues and the value of our properties could decline materially which would negatively affect our results of operations.

Some potential losses are not covered by insurance, which could adversely affect our financial condition or cash flow.

The property insurance that we maintain for our properties has historically been on an "all risk" basis, which is in full force and effect until renewal in August 2024. There are other types of losses, such as from wars or catastrophic events, for which we cannot obtain insurance at all or at a reasonable cost.

Our insurance does not cover terrorist related activities except certain non-certified nuclear, chemical and biological acts of terrorism. Our financial condition and results of operations are subject to the risks associated with acts of terrorism and the potential for uninsured losses as the result of any such acts.

Property ownership also involves potential liability to third parties for such matters as personal injuries occurring on the property. Such losses may not be fully insured. Furthermore, losses related to other types of risk, such as cybersecurity incidents or climate change may not be fully insured. In addition to uninsured losses, various government authorities may condemn all or parts of operating properties. Such condemnations could adversely affect the viability of such projects. Any such uninsured loss could adversely affect our financial condition or cash flow.

In the event of an uninsured loss or a loss in excess of our insurance limits, we could lose both the revenues generated from the affected property and the capital we have invested in the affected property. Depending on the specific circumstances of the affected property, it is possible that we could be liable for any mortgage indebtedness or other obligations related to the property. Any such loss could adversely affect our business and financial condition and results of operations. Additionally, any material increase in insurance rates or decrease in available coverage in the future could adversely affect our results of operations and financial condition.

Compliance with certain federal, state and local laws and regulations could adversely affect our results of operation, and may cause us to incur substantial costs or subject us to potential liabilities.

We are subject to certain compliance costs and potential liabilities under various U.S. federal, state and local environmental, employment, health, safety and zoning laws and regulations that govern our and our tenants' operations. If we fail to comply with such laws, including if we fail to obtain any required permits or licenses, we could face substantial fines or possible revocation of our authority to conduct some of our operations.

Some of our current or former properties have had tenants that used hazardous substances or petroleum in the course of their businesses. Various environmental laws impose liability on a current or former owner or operator of real property for investigation or cleanup of hazardous substances or petroleum products at, on, under or migrating from our currently or formerly owned or leased real property, regardless of whether or not we knew of, or caused, the presence or release of such substances or products. Liability under these laws may be joint and several, meaning that we could be required to bear 100% of the liability even if other parties are also liable. From time to time, we may be required to investigate and clean-up hazardous substances or petroleum products or remove, abate or manage asbestos, mold, radon gas, lead or other hazardous conditions at our properties, and the costs of those effort may be substantial and could exceed the value of the property and/or our aggregate assets. The presence or release of such hazardous substances or petroleum products at our currently owned or leased properties could result in limitations on or interruptions to our operations, or may adversely affect our ability to sell or rent such properties or borrow using such properties as collateral. Releases of hazardous substances or petroleum products at our currently or formerly owned or leased properties could result in third-party claims for bodily injury, property or natural resource damages, or other losses, including liens in favor of the government for costs the government incurs in cleaning up contamination. In addition, we may be liable for the costs of investigating or remediating contamination at off-site waste disposal facilities to which we have arranged for the disposal, or treatment of hazardous substances without regard to whether we complied with environmental laws in doing so. It is our policy to retain independent environmental consultants to conduct Phase I environmental site assessments and asbestos surveys prior to our acquisition of properties. However, there is a risk that these assessments will not identify all potential environmental issues at a given property. Moreover, environmental, health and safety requirements have become increasingly stringent, and our costs may increase as a result. New or revised laws and regulations or new interpretations of existing laws and regulations, such as those related to climate change, could affect the operation of our properties or result in significant additional expense and operating restrictions on our properties or adversely affect our ability to sell properties or to use properties as collateral.

We may also incur significant costs complying with other regulations. In addition, failure of our properties to comply with the ADA could result in injunctive relief, fines, an award of damages to private litigants or mandated capital expenditures to remedy such noncompliance. Any imposition of injunctive relief, fines, damage awards or capital expenditures could adversely impact our business or results of operations. Our properties are subject to various other federal, state and local regulatory requirements, such as state and local fair housing, rent control and fire and life safety requirements. If we fail to comply with the requirements of the ADA or other federal, state and local regulations, we could be subject to fines, penalties, injunctive action, reputational harm and other business effects which could materially and negatively affect our performance and results of operations.

In addition, existing laws could be interpreted in a manner that restricts our ability to use systems that we currently use in our operations and we may face litigation or regulatory risk in connection with such laws. Future compliance with new laws of general applicability, laws applicable to companies in our industry, or laws applicable to public companies generally could increase our costs and could have an adverse effect on our financial performance. For example, one of our vendors, RealPage, is currently involved in lawsuits alleging that RealPage and others conspired to artificially inflate the prices of multifamily residential real estate above competitive levels.

We face cybersecurity risks which have the potential to disrupt our operations, cause material harm to our financial condition, result in misappropriation of assets, compromise confidential information and/or damage our business relationships and we can provide no assurance that the steps we and our service providers take in response to these risks will be effective.

We are dependent on our information technology networks and systems to access, as well as those of third parties, to process, transmit and store proprietary and confidential information, including personal information of residents, employees, and vendors. We face cybersecurity threats, including system, network or internet failures, cyber-attacks, ransomware and other malware, social engineering, phishing schemes and workforce member error, negligence, or fraud. The risk of a cyber-attack, including by computer hackers, nation-state affiliated actors and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks around the world have increased. Any such cybersecurity incident, including those impacting personal information, may result in disruption of our operations, material harm to our financial condition, cash flows and the market price of our common shares, misappropriation of assets, compromise or corruption of confidential information collected in the course of conducting our business, liability for impacted information or assets, increased cybersecurity protection and insurance costs, regulatory scrutiny or enforcement, litigation and damage to our stakeholder relationships. A cybersecurity incident could also interfere with our ability to comply with financial reporting requirements. Additionally, future or past business transactions (such as acquisitions or integrations) could expose us to additional cybersecurity risks and threats, as our systems could be negatively affected by vulnerabilities present in acquired or integrated entities' systems and technologies. Furthermore, we may discover security issues that were not found during due diligence of such acquired or integrated entities, and it may be difficult to integrate companies into our information technology environment and security program. In addition, increased regulation of data collection, use and retention practices, including self-regulation and industry standards, changes in existing laws and regulations, enactment of new laws and regulations, increased enforcement activity, and changes in interpretation of laws, could increase our cost of compliance and operation, limit our ability to grow our business or otherwise harm the Company.

We also rely on third-party service providers in our conduct of our business, and we can provide no assurance that the security measures of those providers will be effective. While we may be entitled to damages if our third-party service providers fail to satisfy their security-related obligations to us, any award may be insufficient to cover our damages, or we may be unable to recover such award.

Although we and our third-party service providers make efforts to maintain the security and integrity of our information, including the implementation of security measures, required employee awareness training and the existence of a disaster recovery plan, we can provide no assurance that our data security measures will be able to detect or prevent all cybersecurity incidents. These risks require increasing resources from us to analyze and mitigate, and there is no assurance that our efforts will be effective. Additionally, as a result of the internalization of community management services for our properties, which was completed in 2023, we collect and retain greater amounts of personal information, both from employees and current and potential residents, which increases the risks and potential effects of such a cybersecurity incident.

We have identified and expect to continue to identify cyberattacks and cybersecurity incidents on our systems and those of third parties, but none of the cyberattacks and incidents we have identified to date has had a material impact on our business or operations.

While we have purchased cybersecurity insurance, there are no assurances that the coverage would be adequate in relation to any incurred losses. Moreover, as cyber-attacks increase in frequency and magnitude, we may be unable to obtain cybersecurity insurance in amounts and on terms we view as adequate for our operations.

A pandemic and measures intended to prevent its spread, could have a material adverse effect on our business, results of operations, cash flows and financial condition.

A pandemic and emergence of new variants could (as the outbreak of COVID-19 did) negatively impact the global economy, disrupt financial markets and international trade, and result in varying unemployment levels, all of which could negatively impact the multifamily industry and our business. Pandemic outbreaks could lead (and the outbreak of COVID-19 led) governments and other authorities around the world, including federal, state and local authorities in the United States, to impose measures intended to mitigate its spread, including restrictions on freedom of movement and business operations such as orders not allowing the collection of rents, rent increases, or eviction of non-paying residents and tenants.

The impact of an ongoing pandemic and measures to prevent its spread could (and the outbreak of COVID-19 did) negatively impact our businesses in a number of ways, including shifts in consumer housing demand, our residents' ability or willingness to pay rents and the demand for multifamily communities within the markets we operate. Unanticipated costs and operating expenses and decreased anticipated and actual revenue related to compliance with regulations could negatively impact our future compliance with financial covenants of debt agreements and our ability to satisfy certain REIT-related requirements.

Risks Related to Financing

Rising interest rates would increase our interest costs and negatively impact our cash flow.

We have and may continue to incur indebtedness that bears interest at variable rates. As a result, an increase in interest rates will increase our interest expense, which could adversely affect our cash flow and our ability to service debt. As a protection against rising interest rates, we may enter into agreements such as interest rate swaps, caps, floors and other interest rate exchange contracts. These agreements, however, increase our risks including other parties to the agreements not performing or that the agreements may be unenforceable.

We face risks associated with the use of debt, including refinancing risk.

We rely on borrowings under our credit facility, term loan, mortgage notes, and debt securities to finance acquisitions and development activities and for general corporate purposes. In the past, the commercial real estate debt markets have experienced significant volatility due to a number of factors, including the tightening of underwriting standards by lenders and credit rating agencies and the diminished market sentiment and prices with respect to certain asset classes. This volatility resulted in investors decreasing the availability of debt financing as well as increasing the cost of debt financing. These conditions, which increase the cost and reduce availability of debt, may continue to worsen in the future. Circumstances could again arise in which we may not be able to obtain debt financing in the future on favorable terms, or at all. If we are unable to borrow under our credit facility, obtain new debt financing or to refinance existing debt, our financial condition and results of operations would likely be adversely affected. Similarly, global equity markets have experienced significant price volatility and liquidity disruptions in recent years, and similar circumstances could significantly and negatively impact liquidity in the financial market in the future. Any disruption could negatively impact our ability to access additional financing at reasonable terms or at all.

We anticipate that only a small portion of the principal of our currently outstanding debt, if any, will be repaid prior to maturity. Therefore, we are likely to need to refinance a significant portion of our outstanding debt as it matures. There is a risk that we may not be able to refinance existing debt or that the terms of any refinancing will not be as favorable as the terms of the existing debt. If principal payments due at maturity cannot be refinanced, extended or repaid with proceeds from other sources, such as new equity capital, our cash flow may not be sufficient to repay all maturing debt in years when significant "balloon" payments come due. In addition, we may rely on debt to fund a portion of our new investments such as our acquisition and development activity. There is a risk that we may be unable to finance these activities on favorable terms or at all. The materialization of any of the foregoing risks would adversely affect our financial condition and results of operations.

Our degree of leverage could limit our ability to obtain additional financing, affect the market price of our common shares or debt securities or otherwise adversely affect our financial condition.

On February 13, 2024, our total consolidated debt was approximately $0.7 billion. Using the closing share price of $14.13 per share of our common shares on February 13, 2024, multiplied by the number of our common shares, our consolidated debt to total consolidated market capitalization ratio was approximately 36% as of February 13, 2024.

Our degree of leverage could affect our ability to obtain additional financing for working capital, capital expenditures, acquisitions, development or other general corporate purposes. Our senior unsecured debt is currently rated investment grade by two major rating agencies. However, there can be no assurance that we will be able to maintain this rating, and in the event our senior debt is downgraded from its current rating, we would likely incur higher borrowing costs and/or difficulty in obtaining additional financing. Our degree of leverage could also make us more vulnerable to a downturn in business or the economy generally. There is a risk that changes in our debt to market capitalization ratio, which is in part a function of our share price, or our ratio of indebtedness to other measures of asset value used by financial analysts, may have an adverse effect on the market price of our equity or debt securities.

Additionally, payments of principal and interest on borrowings may leave us with insufficient cash resources to operate our properties, fully implement our capital expenditure, acquisition and redevelopment activities, or meet the REIT distribution requirements imposed by the Code.

Failure to effectively hedge against interest rate changes may adversely affect our financial condition, results of operations, cash flow, per share market price of our common shares and ability to make distributions to our shareholders and agreements we enter into to protect us from rising interest rates expose us to counterparty risk.

We have entered into, and may in the future enter into, hedging transactions to protect ourselves from the effects of interest rate fluctuations on variable rate debt. Our hedging transactions have included, and may in the future include, entering into agreements such as interest rate swaps, caps, floors and other interest rate exchange contracts. These agreements involve risks, such as the risk that such arrangements would not be effective in reducing our exposure to interest rate changes or that a court could rule that such an agreement is not legally enforceable. In addition, interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates. Failure to hedge effectively against interest rate changes could materially adversely affect our financial condition, results of operations, cash flow, per share trading price of our common shares and ability to make distributions to our shareholders. While such agreements are intended to lessen the impact of rising interest rates on us, they could also expose us to the risk that the other parties to the agreements would not perform, and that the hedging arrangements may not be effective in reducing our exposure to interest rate changes. In addition, the REIT provisions of the Code may limit use of certain hedging techniques that might otherwise be advantageous or push us to implement those hedges through a taxable REIT subsidiary, which would increase the cost of our hedging activities. Moreover, there can be no assurance that our hedging arrangements will qualify as highly effective cash flow hedges under Financial Accounting Standards Board ("FASB"), Accounting Standards Codification ("ASC") Topic 815, *Derivatives and Hedging*, or that our hedging activities will have the desired beneficial impact on our results of operations. Should we desire to terminate a hedging agreement, there could be significant costs and cash requirements involved to fulfill our obligation under the hedging agreement.

Loans under our credit facility and term loan agreement may bear interest based on SOFR, but experience with SOFR based loans is limited.

Our credit facility and term loan agreement requires the applicable interest rate or payment amount by reference to SOFR ("Secured Overnight Financing Rate"). The use of SOFR based rates may result in interest rates and/or payments that are higher or lower than the rates and payments that we previously experienced under USD-LIBOR. In addition, the use of SOFR based rates is relatively new, and there could be unanticipated difficulties or disruptions with the calculation and publication of SOFR based rates that could hinder our ability to establish effective hedges and result in a different economic value over time for these instruments than they otherwise would have had under USD-LIBOR. In particular, if the agent under our credit facility or under our term loan agreement determines that SOFR based rates cannot be determined or the applicable agent or lenders determine that SOFR based rates do not adequately reflect the cost of funding, outstanding SOFR based loans may be converted into base rate loans, which could result in increased borrowing costs.

Covenants in our debt agreements could adversely affect our financial condition.

Our credit facility and other debt instruments contain customary restrictions, requirements and other limitations on our ability to incur indebtedness. We must maintain certain ratios, including a maximum of total indebtedness to total asset value, a maximum of secured indebtedness to total asset value, a minimum of quarterly adjusted EBITDA to fixed charges and a maximum of unsecured indebtedness to unencumbered pool value. Our ability to borrow under our credit facility is subject to compliance with our financial and other covenants.

Failure to comply with any of the covenants under our unsecured credit facility or other debt instruments (including our indenture, term loan agreement and our notes purchase agreement) could result in a default under one or more of our debt instruments. If we fail to comply with the covenants in our unsecured credit facility or other debt instruments, other sources of capital may not be available to us or be available only on unattractive terms. In addition, if we breach covenants in our debt agreements, the lenders can declare a default and, if the debt is secured, take possession of the property securing the defaulted loan.

Any default or cross-default events could cause our lenders to accelerate the timing of payments and/or prohibit future borrowings, either of which would have a material adverse effect on our business, operations, financial condition and liquidity.

Risks Related to Our Organizational Structure

Our declaration of trust and Maryland law contain provisions that may delay, defer or prevent a change in control of Elme Communities, even if such a change in control may be in the best interest of our shareholders, and as a result may depress the market price of our common shares.

Provisions of the Maryland General Corporation Law ("MGCL") may limit a change in control which could prevent holders of our common shares from profiting as a result of such change in control. These provisions include:

- a provision where a corporation is not permitted to engage in any business combination with any "interested stockholder," defined as any holder or affiliate of any holder of 10% or more of the corporation's stock, for a period of five years after that holder becomes an "interested stockholder," and
- a provision where the voting rights of "control shares" acquired in a "control share acquisition," as defined in the MGCL, may be restricted, such that the "control shares" have no voting rights, except to the extent approved by a vote of holders of two-thirds of the common shares entitled to vote on the matter.

Our bylaws currently provide that the foregoing provision regarding "control share acquisitions" will not apply to any acquisition by any person of shares of beneficial interest of Elme Communities. There can be no assurance that this provision will not be amended or eliminated at any time in the future by our Board and may be amended or eliminated with retroactive effect.

Additionally, Title 8, Subtitle 3 of the MGCL permits our Board, without shareholder approval and regardless of what is currently provided in our declaration of trust or bylaws, to implement certain takeover defenses. These provisions may have the effect of inhibiting a third party from making an acquisition proposal for us or of delaying, deferring or preventing a change in control of us under the circumstances that otherwise could provide our common shareholders with the opportunity to realize a premium over the then current market price.

The share ownership limits imposed by the Code for REITs and imposed by our declaration of trust may restrict our business combination opportunities that might involve a premium price for our common shares or otherwise be in the best interest of our shareholders.

The ownership of our shares must be restricted in several ways in order for us to maintain our qualification as a REIT under the Code. Our declaration of trust provides that no person (other than an excepted holder, as defined in our declaration of trust) may actually or constructively own more than 9.8% of the aggregate of our outstanding common shares by value or by number of shares, whichever is more restrictive, or 9.8% of the aggregate of the equity shares by value.

Our Board has the authority under our declaration of trust to reduce these share ownership limits. Our Board may, in its sole discretion, grant exemptions to the share ownership limits, subject to such conditions and the receipt by our Board of certain representations and undertakings to ensure that our REIT qualification is not adversely affected. In addition to 9.8% (or any lower future percentage) share ownership limits, our declaration of trust also prohibits any person from (a) beneficially or constructively owning, as determined by applying certain attribution rules of the Code, our equity shares that would result in us being "closely held" under Section 856(h) of the Code (regardless of whether the interest is held during the last half of a taxable year) or that would otherwise cause us to fail to qualify as a REIT, or (b) transferring equity shares if such transfer would result in our equity shares being owned by fewer than 100 persons.

The share ownership limits contained in our declaration of trust are based on the ownership at any time by any "person," which term includes entities and certain groups. The share ownership limitations in our declaration of trust are common in REIT charters and are intended to provide added assurance of compliance with the tax law requirements. However, the share ownership limits on our shares and our enforcement of them might delay, defer, prevent, or otherwise inhibit a transaction or a change in control of Elme Communities, including a transaction that might involve a premium price for our common shares or that might otherwise be in the best interest of our shareholders.

Our rights and the rights of our shareholders to take action against our trustees and officers are limited, which could limit your recourse in the event of actions that you do not believe are in your best interests.

Maryland law provides that a trustee has no liability in that capacity if he or she satisfies his or her duties to us and our shareholders. Under current Maryland law, our trustees and officers will not have any liability to us or our shareholders for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- a final judgment based upon a finding of active and deliberate dishonesty by the trustee or officer that was material to the cause of action adjudicated.

In addition, our declaration of trust authorizes and our bylaws require us to indemnify our trustees for actions taken by them in those capacities to the maximum extent permitted by Maryland law. Our bylaws also require us to indemnify our officers for actions taken by them in those capacities to the maximum extent permitted by Maryland law. As a result, we and our shareholders may have more limited rights against our trustees and officers than might otherwise exist. Accordingly, in the event that actions taken in good faith by any of our trustees or officers impede the performance of Elme Communities, your ability to recover damages from such trustees or officers will be limited with respect to trustees and may be limited with respect to officers. In addition, we have agreed to obligations to advance the defense costs incurred by our trustees and our executive officers, and may, in the discretion of our Board, advance the defense costs incurred by our officers, our employees and other agents, in connection with legal proceedings.

<u>Risks Related to Our Common Shares</u>

We cannot assure you we will continue to pay dividends at current rates and the failure to do so could have an adverse effect on the market price of our common shares.

Cash flows from operations are an important factor in our ability to sustain our dividend at its current rate. If our cash flows from operations were to decline significantly, we may have to borrow on our lines of credit to sustain the dividend rate or reduce our dividend. Our ability to continue to pay dividends on our common shares at their current rate or to increase our common share dividend rate will depend on a number of factors, including, among others, our future financial condition and results of operations and the terms of our debt covenants.

Our Board considers, among other factors, trends in our levels of funds from operations, together with associated recurring capital improvements, tenant improvements, leasing commissions and incentives, and adjustments to straight-line rents to reflect cash rents received to achieve a targeted payout ratio. If some or all of these factors were to trend downward for a sustained period of time, our Board could determine to reduce our dividend rate. If we do not maintain or increase the dividend rate on our common shares in the future, it could have an adverse effect on the market price of our common shares.

Additionally, the market value of our securities can be adversely affected by many factors, including certain factors related to our REIT status.

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

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

- level of institutional interest in us;
- perceived attractiveness of investment in us, in comparison to other REITs;
- perceived attractiveness of the Washington, DC metro and Sunbelt regions;
- attractiveness of securities of REITs in comparison to other asset classes taking into account, among other things, that a substantial portion of REITs' dividends may be taxed as ordinary income;
- our financial condition and performance;
- the market's perception of our growth potential and potential future cash dividends;
- investor confidence in the stock and bond markets generally;
- national economic conditions and general stock and bond market conditions;
- government uncertainty, action or regulation;

- increases in market interest rates, which may lead investors to expect a higher annual yield from our distributions in relation to the price of our shares;
- uncertainty around and changes in U.S. federal tax laws;
- changes in our credit ratings; and
- any negative change in the level of our dividend or the partial payment thereof in common shares.

Additionally, any future offerings of our shares may dilute the holdings of our existing shareholders, reduce the market price of our shares, or both. Holders of our shares are not entitled to preemptive rights or other protections against dilution.

Risks Related to Taxes and our Status as a REIT

The loss of our tax status as a REIT would have significant adverse consequences to us and the value of our common shares.

We believe that we qualify as a REIT, and we intend to continue to operate in a manner that will allow us to continue to qualify as a REIT. However, our declaration of trust provides that our Board may revoke or otherwise terminate our REIT election, without the approval of our shareholders, if it determines that it is no longer in our best interest to continue to qualify as a REIT. Furthermore, we cannot assure you that we are qualified as a REIT, or that we will remain qualified as a REIT in the future. This is because qualification as a REIT involves the application of highly technical and complex provisions of the Code which include maintaining ownership of specified minimum levels of real estate-related assets, generating specified minimum levels of real estate-related income, maintaining certain diversity of ownership requirements with respect to our shares and distributing at least 90% of our "REIT taxable income" (determined before the deduction for dividends paid and excluding net capital gains) on an annual basis. Moreover, the complexity of these provisions and of applicable treasury regulations is greater in the case of a REIT that, like us, holds some of its assets through entities treated as partnerships for U.S. federal income tax purposes.

Only limited judicial and administrative interpretations of the REIT rules exist. In addition, qualification as a REIT involves the determination of various factual matters and circumstances not entirely within our control.

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

(i) we would be subject to U.S. federal income tax at the regular corporate rate, without any deduction for dividends paid to shareholders in computing our taxable income, and possibly increased state and local taxes; and
(ii) unless we are entitled to relief under statutory provisions, we would be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost.

This treatment would reduce net earnings available for investment or distribution to shareholders because of the additional tax liability for the year (or years) involved. To the extent that distributions to shareholders had been made based on the assumption of our qualification as a REIT, we might be required to borrow funds or to liquidate certain of our investments to pay the applicable tax. As a result of these factors, our failure to qualify as a REIT could have a material adverse impact on our results of operations, financial condition and liquidity. If we fail to qualify as a REIT but are eligible for certain relief provisions, then we may retain our status as a REIT but may be required to pay a penalty tax, which could be substantial.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The maximum tax rate applicable to income from "qualified dividends" payable by non-REIT C corporations to U.S. shareholders that are individuals, trusts or estates generally is 20% (excluding the 3.8% net investment income tax). Dividends payable by REITs, however, generally are not eligible for the maximum 20% reduced rate and are taxed at applicable ordinary income tax rates, except to the extent that certain holding requirements have been met and a REIT's dividends are attributable to dividends received by a REIT from taxable corporations (such as a taxable REIT subsidiary), to income that was subject to tax at the REIT/corporate level, or to dividends properly designated by the REIT as "capital gain dividends." For taxable years beginning before January 1, 2026, U.S. shareholders that are individuals, trusts or estates may deduct 20% of their dividends from REITs (excluding qualified dividend income and capital gains dividends). For those U.S. shareholders in the top marginal tax bracket of 37%, the deduction for REIT dividends yields an effective income tax rate of 29.6% (excluding the net investment income tax) on REIT dividends, which is higher than the 20% tax rate on qualified dividend income paid by non-REIT C corporations (although the maximum effective rate applicable to such dividends, after taking into account the 21% U.S. federal income tax rate applicable to non-REIT C corporations is 36.8% (excluding the 3.8% net investment income tax)). Although the reduced rates applicable to dividend income from non-REIT C corporations do not adversely affect the taxation of REITs or dividends payable by REITs, these reduced rates could cause investors who are non-corporate taxpayers to perceive investments in REITs to be relatively less attractive than investments in the shares of non-REIT C corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common shares.

The REIT distribution requirements could require us to borrow funds during unfavorable market conditions or subject us to tax, which would reduce the cash available for distribution to our shareholders.

In order to qualify as a REIT, we generally must distribute to our shareholders, on an annual basis, at least 90% of our "REIT taxable income," determined without regard to the deduction for dividends paid and excluding net capital gains. In addition, we will be subject to U.S. federal income tax at the regular corporate rate (currently 21%) to the extent that we distribute less than 100% of our net taxable income (including net capital gains) and will be subject to a 4% nondeductible excise tax on the amount by which our distributions in any calendar year are less than a minimum amount specified under U.S. federal income tax laws. We intend to continue to distribute our net income to our shareholders in a manner intended to satisfy the REIT 90% distribution requirement and to avoid U.S. federal income tax and the 4% nondeductible excise tax.

In addition, from time to time our taxable income may exceed our net income as determined by GAAP. This may occur, for instance, because realized capital losses are deducted in determining our GAAP net income but may not be deductible in computing our taxable income. In addition, we may incur nondeductible capital expenditures or be required to make debt or amortization payments. As a result of the foregoing, we may generate less cash flow than taxable income in a particular year and we may incur U.S. federal income tax and the 4% nondeductible excise tax on that income if we do not distribute such income to shareholders in that year. In that event, we may be required to (i) use cash reserves, (ii) incur debt at rates or times that we regard as unfavorable, (iii) sell assets in adverse market conditions, (iv) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt, or (v) make a taxable distribution of our shares as part of a distribution in which shareholders may elect to receive our shares or (subject to a limit measured as a percentage of the total distribution) cash in order to satisfy the REIT 90% distribution requirement and to avoid U.S. federal income tax and the 4% nondeductible excise tax in that year. These alternatives could increase our costs or reduce or dilute our equity. Thus, compliance with the REIT requirements may hinder our ability to grow, which could adversely affect our business, financial condition and results of operations.

The U.S. federal income tax treatment of the cash that we might receive from cash settlement of a forward sale agreement is unclear and could jeopardize our ability to meet the REIT qualification requirements.

We may enter into forward sale agreements from time to time and, subject to certain conditions, we have the right to elect physical, cash or net share settlement under these agreements at any time and from time to time, in part or in full. In the event that we elect to settle a forward sale agreement for cash and the settlement price is below the forward sale price, we would be entitled to receive a cash payment from the applicable forward purchaser(s). Under Section 1032 of the Code, generally, no gains and losses are recognized by a corporation in dealing in its own shares, including pursuant to a "securities futures contract," as defined in the Code by reference to the Securities Exchange Act of 1934. Although we believe that any amount received by us in exchange for our common shares would qualify for the exemption under Section 1032 of the Code, because it is not entirely clear whether a forward sale agreement qualifies as a "securities futures contract," the U.S. federal income tax treatment of any cash settlement payment we receive is uncertain. In the event that we recognize a significant gain from the cash settlement of a forward sale agreement, we might not be able to satisfy the gross income requirements applicable to REITs under the Code. If we were to fail to satisfy one or both of the gross income tests for any taxable year, we may nevertheless qualify as a REIT for such year if we were entitled to relief under certain provisions of the Code. If these relief provisions were inapplicable, we would not qualify to be taxed as a REIT.

Even if we qualify as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we qualify for taxation as a REIT, we may be subject to certain U.S. federal, state and local taxes on our income, property or net worth, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes. Moreover, if we have net income from "prohibited transactions," that income will be subject to a 100% tax. The need to avoid prohibited transactions could cause us to forego or defer sales of properties that might otherwise be in our best interest to sell. In addition, we could, in certain circumstances, be required to pay an excise or penalty tax (which could be significant in amount) in order to utilize one or more relief provisions under the Code to maintain our qualification as a REIT. Any of these taxes would decrease cash available for the payment of our debt obligations and distributions to shareholders. Our taxable REIT subsidiary (and any taxable REIT subsidiary formed in the future) generally will be subject to U.S. federal, state and local corporate income tax on their taxable income. Moreover, while we will attempt to ensure that our dealings with our taxable REIT subsidiary (and any taxable REIT subsidiary formed in the future) do not adversely affect our REIT qualification, we cannot provide assurances that we will successfully achieve that result.

Partnership tax audit rules could have a material adverse effect on us.

Under current federal partnership tax audit rules, subject to certain exceptions, any audit adjustment to items of income, gain, loss, deduction, or credit of a partnership (and a partner's allocable share thereof) is determined, and taxes, interest, and penalties attributable thereto are assessed and collected, at the partnership level. With respect to any partnership in which we invest, unless such partnership makes an election or takes certain steps to require the partners to pay their tax on their allocable shares of the adjustment, it is possible that such partnership would be required to pay additional taxes, interest, and penalties as a result of an audit adjustment. We could be required to bear the economic burden of those taxes, interest, and penalties even though we, as a REIT, may not otherwise have been required to pay additional corporate-level taxes had we owned the assets of the partnership directly.

There is a risk of changes in the tax laws which may adversely affect our taxation as a REIT and taxation of our shareholders.

The IRS, the United States Treasury Department and Congress frequently review U.S. federal income tax legislation, regulations and other guidance. Most recently, numerous legislative, judicial and administrative changes have been made to the U.S. federal income tax laws in connection with the passage of the Tax Cuts and Jobs Act of 2017, the Coronavirus Aid, Relief and Economic Security Act and the Inflation Reduction Act of 2022. We cannot predict whether, when or to what extent new U.S. federal tax laws, regulations, interpretations or rulings will be adopted. Further, from time to time, changes in state and local tax laws or regulations are enacted, which may result in an increase in our tax liability. Any legislative action may prospectively or retroactively modify our tax treatment and, therefore, may adversely affect our taxation or taxation of our shareholders. We urge you to consult with your tax advisor with respect to the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in our common shares.

ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

ITEM 1C: CYBERSECURITY

We are committed and focused on cybersecurity and seek to ensure the safeguarding of data entrusted to us. Our cybersecurity strategy combines prevention with resiliency and continuous improvement to help enhance our organization's cyber posture. We regularly reevaluate the threat landscape and evolve our strategies to address new threats. In addition to regularly refining our protection methodology, we focus on identification of, response to, and recovery from a cyber-attack. Our program employs the strengths of people, processes, and technology to protect resident, employee, and organization data.

Cybersecurity Risk Management Processes

In managing cybersecurity risks, we follow a structured framework informed by the National Institute of Standards and Technology ("NIST") Cybersecurity Framework. This framework provides a comprehensive set of guidelines and leading practices, enabling us to identify, protect, detect, respond, and recover from cyber threats and potential cybersecurity incidents. Regularly benchmarking our cybersecurity measures against the NIST framework helps ensure that our protocols remain robust and current in the face of evolving cyber threats.

Our Cybersecurity Risk Management ("CRM") processes are ingrained in our overall Enterprise Risk Management ("ERM") process. As part of our ERM process, department leaders identify, assess and evaluate risks impacting Elme and its operations across several pillars corresponding to significant business processes, including those risks related to cybersecurity. The IT department reviews risks, threats, and trends related to cybersecurity on a daily basis and formally discusses the Company's cybersecurity strategy on a weekly basis. We evaluate the methods, procedures and initiatives that reduce identified inherent risks and the residual risk to the Company. The identified risks and the processes we use to manage these risks are presented to the executive team and the Board on at least an annual basis. We report results of our ERM process, along with an assessment of top risks and corresponding risk management strategy, to the Board. Cybersecurity is a distinct pillar of our ERM process. Some of our key risks concerning cybersecurity that are included in our CRM processes include the following:

- Data loss and/or damages to systems resulting from malicious or accidental actions of an internal employee,
- external parties committing social engineering (e.g., phishing) or business email compromise attacks,
- third-party software service providers suffering a cybersecurity incident that has a significant impact on our business, data or ability to operate, and
- a ransomware attack resulting in encrypted data and release of confidential company and/or resident information.

The Company's Board of Trustees does not believe that there are currently any risks from cybersecurity threats that are reasonably likely to materially affect the Company or its business strategy, financial condition, results of operations, or cash flows.

To manage these risks, we take various actions, including the following:

- Require an annual user awareness and education program in which new and existing employees complete assessments to benchmark their awareness of cybersecurity threats and leading practices,
- conduct regular email phishing tests with additional training provided to employees who fail the tests,
- perform in-house vulnerability management and third-party network penetration testing,
- secure insurance coverage for cybersecurity incidents,
- routinely benchmark our cybersecurity practices against industry leading frameworks,
- conduct incident response tabletop exercises to test our security countermeasures and incident response program,
- engage a third-party firm to audit our cybersecurity procedures,
- engage a third-party Managed Security Service Provider to perform network and endpoints monitoring,

These actions help us identify opportunities for improvement in our incident preparedness and response processes.

In the event of a cybersecurity incident, we maintain a regularly tested incident response program. Pursuant to the program and its escalation protocols, designated personnel are responsible for assessing the severity of the incident and associated threat, containing the threat, remediating the threat, including recovery of data and access to systems, analyzing any reporting and disclosure obligations associated with the incident, and performing post-incident analysis and program enhancements. While the personnel assigned to an incident response team may depend on the particular facts and circumstances, the team is generally led by the Chief Information Officer ("CIO") or another member of the IT team and will include other information technology and legal personnel. The incident response team regularly reports to senior management, in the event of a potentially notable incident. The CIO or another member of the incident response team also reports periodically to the Company's Board regarding cybersecurity incidents impacting us.

We use third parties for various services such as property management, enterprise resource planning software and cloud computing. The use of third parties exposes us to risks that cybersecurity incidents at a third-party provider would impact Elme's operations and data security. We identify these risks with our robust evaluation program for our third-party partners, in which we assess third-party cybersecurity controls through a questionnaire and include security terms in our contracts where applicable. We mitigate these risks by assessing cybersecurity practices of new providers, continually reviewing and monitoring the cybersecurity practices of our major service providers and conducting periodic reviews of the cybersecurity strategy and posture of our other significant providers. We also consider cybersecurity incidents at our third-party providers in our business continuity and disaster recovery planning.

We have not experienced any material cybersecurity incidents to date. Notwithstanding the extensive approach we take to address cybersecurity, we may not be successful in preventing or mitigating all cybersecurity incidents or threats. See Item 1A. "Risk Factors" for a discussion of cybersecurity risks.

Governance

Elme's leadership is committed to maintaining a secure environment that upholds high standards of privacy and data protection. The executive team reviews industry specific cybersecurity statistics and updates monthly from the IT team. We have documented control procedures that govern access to sensitive data and changes made to critical business systems. Our Cybersecurity Incident Response Plan ("CIRP") helps ensure timely notification of cybersecurity incidents to management and the Board.

Our CIO, has been responsible for the development, enhancement, and oversight of cybersecurity programs in her role as CIO for over a decade at two publicly traded real estate companies. She is a member of the Real Estate Cyber Consortium, the National Multi Housing Council Data Privacy, Security, and Information Management Committee, and the RE-ISAC Cybersecurity Working Group.

The Board is responsible for review and oversight of Elme's cybersecurity risks and the programs and steps implemented by management to assess, manage and mitigate such risks. In the event of a cybersecurity incident, the Board is informed and updated by the incident response team as appropriate. Executive management provides regular updates during board meetings to help ensure that our trustees are informed about the evolving threat landscape and our risk management strategies. The Board receives a cyber update from the CIO on an annual basis. The Board receives communications via email from the CIO on topics of interest throughout the year.

ITEM 2: PROPERTIES

The schedule on the following pages lists our real estate investment portfolio as of December 31, 2023, which consisted of 28 residential communities, one office building and land held for development. Cost information is included in Schedule III to our financial statements included in this Annual Report on Form 10-K.

Schedule of Properties

Properties	Location	Year Acquired	Year Constructed/ Renovated	# of Homes	Average Occupancy, year ended December 31, 2023	Ending Occupancy, as of December 31, 2023
Residential Communities						
Elme Alexandria	Alexandria, VA	2019	1990	532	94.6 %	95.7 %
Cascade at Landmark	Alexandria, VA	2019	1988	277	96.2 %	97.5 %
Clayborne	Alexandria, VA	N/A	2008	74	96.3 %	95.9 %
Riverside Apartments	Alexandria, VA	2016	1971	1,222	96.1 %	97.1 %
Bennett Park	Arlington, VA	N/A	2007	224	95.7 %	96.4 %
Park Adams	Arlington, VA	1969	1959	200	96.4 %	96.0 %
The Maxwell	Arlington, VA	N/A	2014	163	97.0 %	96.9 %
The Paramount	Arlington, VA	2013	1984	135	96.8 %	97.8 %
The Wellington	Arlington, VA	2015	1960	710	95.9 %	96.9 %
Trove	Arlington, VA	N/A	2020	401	95.9 %	95.5 %
Roosevelt Towers	Falls Church, VA	1965	1964	191	96.0 %	97.9 %
Elme Dulles	Herndon, VA	2019	2000	328	96.0 %	97.3 %
Elme Herndon	Herndon, VA	2019	1991	283	96.0 %	96.5 %
Elme Leesburg	Leesburg, VA	2019	1986	134	95.7 %	97.0 %
Elme Manassas	Manassas, VA	2019	1986	408	94.2 %	93.1 %
The Ashby at McLean	McLean, VA	1996	1982	268	95.9 %	95.5 %
3801 Connecticut Avenue	Washington, DC	1963	1951	307	96.5 %	96.4 %
Kenmore Apartments	Washington, DC	2008	1948	371	95.8 %	95.7 %
Yale West	Washington, DC	2014	2011	216	95.6 %	97.2 %
Elme Bethesda	Bethesda, MD	1997	1986	193	96.8 %	98.4 %
Elme Watkins Mill	Gaithersburg, MD	2019	1975	210	95.6 %	96.2 %
Elme Germantown	Germantown, MD	2019	1990	218	96.0 %	95.9 %
Elme Conyers	Conyers, GA	2021	1999	240	93.8 %	93.3 %
Elme Eagles Landing	Stockbridge, GA	2021	2000	490	92.4 %	89.0 %
Elme Marietta	Marietta, GA	2022	1975	420	92.4 %	90.7 %
Elme Sandy Springs	Sandy Springs, GA	2022	1972	389	93.4 %	91.3 %
Elme Cumberland	Smyrna, GA	2022	1982	270	93.3 %	91.1 %
Elme Druid Hills	Atlanta, GA	2023	1987	500	93.4 %	93.8 %
Subtotal Residential Communities				9,374	95.2 %	95.2 %

Property	Location	Year Acquired	Year Constructed/ Renovated	Net Rentable Square Feet	Percent Leased, as of December 31, 2023 (1)	Ending Occupancy, as of December 31, 2023 (1)
Office Building						
Watergate 600	Washington, DC	2017	1972/1997	300,000	87.8 %	87.8 %

(1) Percent leased and ending occupancy calculations are based on square feet and includes temporary lease agreements for Watergate 600. Percent leased is the percentage of net rentable area for which fully executed leases exist and may include signed leases for space not yet occupied by the tenant.

ITEM 3: LEGAL PROCEEDINGS

None.

ITEM 4: MINE SAFETY DISCLOSURES

None.

PART II

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

Market and Shareholder Information: Our shares trade on the New York Stock Exchange under the symbol ELME. As of February 13, 2024, there were 2,651 shareholders of record.

Issuer Repurchases; Unregistered Sales of Securities: A summary of our repurchases of our common shares of beneficial interest for the three months ended December 31, 2023 was as follows:

Issuer Purchases of Equity Securities

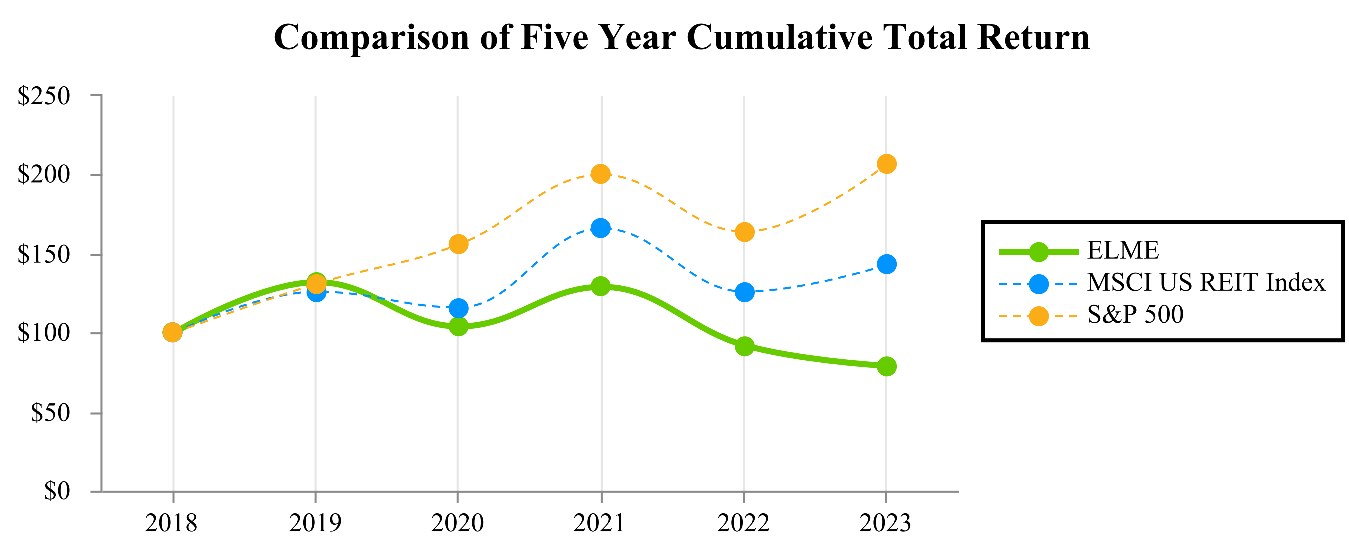
Period	Total Number of Shares Purchased [(1)]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [(2)]	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased
October 1 - October 31, 2023	—	$ —	0	$50,000,000
November 1 - November 30, 2023	—	—	0	50,000,000
December 1 - December 31, 2023	24,049	14.49	0	50,000,000
Total	24,049	$ 14.49	0	

(1) Represents restricted shares surrendered by employees to Elme Communities to satisfy such employees' applicable statutory minimum tax withholding obligations in connection with the vesting of restricted shares.

(2) On October 26, 2023, the Board authorized and approved a share repurchase program of up to $50.0 million of the Company's common shares of beneficial interest over a period of two years, subject to any applicable limitations or restrictions set forth in our existing credit facility and other debt agreements. The share repurchase program is scheduled to expire on October 25, 2025, unless extended by the Board.

Performance Graph:

The following line graph sets forth, for the period from December 31, 2018, through December 31, 2023, a comparison of the percentage change in the cumulative total shareholder return on our common shares compared to the cumulative total return of the Standard & Poor's 500 Stock Index and the MSCI US REIT Index. The graph assumes that $100 was invested on December 31, 2018, in shares of our common shares and each of the aforementioned indices and that all dividends were reinvested without the payment of any commissions. There can be no assurance that the performance of our shares will continue in line with the same or similar trends depicted in the graph below.



This performance graph shall not be deemed "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference into any filing by us under the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

ITEM 6: RESERVED

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

We provide Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) in addition to the accompanying consolidated financial statements and notes to assist readers in understanding our results of operations and financial condition. We organize the MD&A as follows:

- *Overview.* Discussion of our business outlook, operating results, investment activity, financing activity and capital requirements to provide context for the remainder of MD&A.
- *Results of Operations.* Discussion of our financial results comparing 2023 to 2022.
- *Liquidity and Capital Resources.* Discussion of our financial condition and analysis of changes in our capital structure and cash flows.
- *Funds From Operations*. Calculation of NAREIT Funds From Operations (“NAREIT FFO”), a non-GAAP supplemental measure to net income.
- *Critical Accounting Estimates.* Descriptions of accounting policies that reflect significant judgments and estimates used in the preparation of our consolidated financial statements.

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

- *Net operating income (“NOI”)*, calculated as set forth below under the caption "Results of Operations - Net Operating Income." NOI is a non-GAAP supplemental measure to net income.
- *Funds From Operations (“NAREIT FFO”)*, calculated as set forth below under the caption “Funds from Operations.” NAREIT FFO is a non-GAAP supplemental measure to net income.
- *Average occupancy*, calculated as average daily occupied apartment homes as a percentage of total apartment homes.

For purposes of evaluating comparative operating performance, we categorize our properties as “same-store” or “non-same-store”. Same-store portfolio properties include properties that were owned for the entirety of the years being compared and exclude properties under redevelopment or development and properties acquired, sold or classified as held for sale during the years being compared. We define development properties as those for which we have planned or ongoing major construction activities on existing or acquired land pursuant to an authorized development plan. Development properties are categorized as same-store when they have reached stabilized occupancy (90%) before the start of the prior year. We define redevelopment properties as those for which we have planned or ongoing significant development and construction activities on existing or acquired buildings pursuant to an authorized plan, which has an impact on current operating results, occupancy and the ability to lease space with the intended result of a higher economic return on the property. We categorize a redevelopment property as same-store when redevelopment activities have been complete for the majority of each year being compared.

Overview

Our revenues are derived primarily from the ownership and operation of income producing property. As of December 31, 2023, we owned approximately 9,400 residential apartment homes in the Washington, DC and Atlanta metro regions. We also own and operate approximately 300,000 square feet of commercial space in the Washington, DC metro region.

During 2022, we completed acquisitions of three apartment communities in Georgia with a combined total of 1,079 apartment homes for a total contract purchase price of $283.2 million. During 2023, we completed the acquisition of Elme Druid Hills, a 500-unit apartment community in Atlanta, Georgia for a contract purchase price of $108.0 million.

In connection with our strategic transformation, which shifted our business away from the commercial sector to the residential sector, we redesigned our operating model for purposes of more efficiently and effectively supporting residential operations. This operating model redesign included insourcing the property-level management activities at our multifamily properties previously performed by third-party management companies. Community onboarding began in October 2022, and we have transitioned all of our residential communities to Elme management as of July 2023. Costs related to the strategic transformation, including the allocation of internal costs, consulting, advisory and termination benefits, are included in transformation costs on our consolidated statements of operations. We recognized $6.3 million and $9.7 million of transformation costs, net of amounts capitalized, on the consolidated statements of operations during 2023 and 2022, respectively. We do not anticipate incurring any additional transformation costs in the future. We expect to realize significant operational benefits from this operating model redesign.

Operating Results

The discussion that follows is based on our Operating Results. The ability to compare one period to another is significantly affected by the acquisitions completed 2023 and 2022 (see note 3 to the consolidated financial statements).

Net loss, NOI and NAREIT FFO for the years ended December 31, 2023 and 2022 were as follows (in thousands, except percentage amounts):

	Year Ended December 31,			
	2023	2022	Change	% Change
Net loss	$ (52,977)	$ (30,868)	$ (22,109)	71.6 %
NOI [(1)]	$ 148,081	$ 135,379	$ 12,702	9.4 %
NAREIT FFO [(2)]	$ 77,833	$ 60,854	$ 16,979	27.9 %

(1) See page 33 of the MD&A for reconciliations of NOI to net (loss) income.

(2) See page 43 of the MD&A for reconciliations of NAREIT FFO to net (loss) income.

The increase in net loss is primarily due to a real estate impairment in our office property ($41.9 million), higher interest expense ($5.5 million) and higher property management expenses ($0.7 million) in 2023. These were partially offset by higher NOI ($12.7 million), lower loss on extinguishment of debt ($4.9 million), lower transformation costs ($3.3 million), lower depreciation and amortization expenses ($2.8 million), and lower general and administrative expenses ($2.4 million).

The higher NOI is primarily due to higher NOI from same-store properties ($9.2 million) and the acquisitions of Elme Marietta ($1.7 million) and Elme Cumberland ($1.0 million) in 2022 and Elme Druid Hills ($1.7 million) in 2023, partially offset by lower NOI at Watergate 600 ($0.3 million) and Elme Sandy Springs ($0.4 million). The higher same-store NOI was primarily due to higher rental rates. Residential same-store average occupancy for our portfolio increased to 95.6% as of December 31, 2023 from 95.4% as of December 31, 2022.

The higher NAREIT FFO is primarily due to higher NOI ($12.7 million), lower loss on extinguishment of debt ($4.9 million), lower transformation costs ($3.3 million) and lower general and administrative expenses ($2.4 million). These were partially offset by higher interest expense ($5.5 million) and higher property management expenses ($0.7 million).

Investment Activity

Significant investment activity during 2023 included the acquisition of Elme Druid Hills, a 500-unit apartment community in Atlanta, Georgia for a contract purchase price of $108.0 million during the third quarter of 2023. The acquisition was funded through cash and borrowings under the Company's $700 million unsecured revolving credit facility (“Revolving Credit Facility”).

Financing Activity

Significant financing activity during 2023 included entering into a $125.0 million unsecured term loan (“2023 Term Loan”) with an interest rate of SOFR (subject to a credit spread adjustment of 10 basis points) plus a margin of 95 basis points (subject to adjustment depending on Elme Communities' credit rating). We used the proceeds from the 2023 Term Loan to prepay the $100.0 million 2018 Term Loan in full and a portion of our borrowings under our Revolving Credit Facility. The 2023 Term Loan has a two-year term ending in January 2025, with two one-year extension options.

During 2023, we executed an amendment to our Revolving Credit Facility to convert the benchmark interest rate from LIBOR to an adjusted SOFR, with no change in the applicable interest rate margins. As of December 31, 2023, the interest rate on the Revolving Credit Facility is based on an adjusted daily SOFR (inclusive of the 0.10% credit spread adjustment) plus 0.85% applicable margin, the daily SOFR is 5.38% and the facility fee is 0.20%. As of February 13, 2024, our Revolving Credit Facility has a borrowing capacity of $535.0 million.

Capital Requirements

We do not currently have any debt maturities scheduled for 2024. We expect to have additional capital requirements as set forth on page 37 (Liquidity and Capital Resources - Capital Requirements).

Results of Operations

The discussion that follows is based on our consolidated results of operations for the two years ended December 31, 2023. The ability to compare one period to another is significantly affected by the acquisitions completed during those years (see note 3 to the consolidated financial statements).

Net Operating Income

NOI, defined as real estate rental revenue less direct real estate operating expenses, is a non-GAAP measure. NOI is calculated as net income, less non-real estate revenue and the results of discontinued operations (including the gain or loss on sale, if any), plus interest expense, depreciation and amortization, lease origination expenses, general and administrative expenses, acquisition costs, real estate impairment, casualty gain and losses and gain or loss on extinguishment of debt. NOI does not include management expenses, which consist of corporate property management costs and property management fees paid to third parties. NOI is the primary performance measure we use to assess the results of our operations at the property level. We believe that NOI is a useful performance measure because, when compared across periods, it reflects the impact on operations of trends in occupancy rates, rental rates and operating costs on an unleveraged basis, providing perspective not immediately apparent from net income. NOI excludes certain components from net income in order to provide results more closely related to a property’s results of operations. For example, interest expense is not necessarily linked to the operating performance of a real estate asset. In addition, depreciation and amortization, because of historical cost accounting and useful life estimates, may distort operating performance at the property level. As a result of the foregoing, we provide NOI as a supplement to net income, calculated in accordance with GAAP. NOI does not represent net income or income from continuing operations calculated in accordance with GAAP. As such, NOI should not be considered an alternative to these measures as an indication of our operating performance. A reconciliation of NOI to net income follows.

2023 Compared to 2022

The following tables reconcile net income to NOI and provide the basis for our discussion of our consolidated results of operations and NOI in 2023 compared to 2022. All amounts are in thousands except percentage amounts.

	Year Ended December 31,			
	2023	2022	$ Change	% Change
Net loss	$ (52,977)	$ (30,868)	$ (22,109)	71.6 %
Adjustments:				
Property management expense	8,108	7,436	672	9.0 %
General and administrative expense	25,887	28,258	(2,371)	(8.4)%
Transformation costs	6,339	9,686	(3,347)	(34.6)%
Real estate depreciation and amortization	88,950	91,722	(2,772)	(3.0)%
Real estate impairment	41,860	—	41,860	100.0 %
Interest expense	30,429	24,940	5,489	22.0 %
Loss on extinguishment of debt, net	54	4,917	(4,863)	(98.9)%
Other income	(569)	(712)	143	(20.1)%
Total net operating income (NOI)	$ 148,081	$ 135,379	$ 12,702	9.4 %

	2023	2022	$ Change	% Change
Residential revenue:				
Same-store portfolio	$ 185,958	$ 174,491	$ 11,467	6.6 %
Acquisitions [(1)]	22,429	14,936	7,493	50.2 %
Development	—	—	—	— %
Non-residential [(2)]	924	1,073	(149)	(13.9)%
Total	209,311	190,500	18,811	9.9 %
Residential expenses:				
Same-store portfolio	65,067	62,818	2,249	3.6 %
Acquisitions	8,996	5,508	3,488	63.3 %
Development	224	128	96	75.0 %
Non-residential	248	281	(33)	(11.7)%
Total	74,535	68,735	5,800	8.4 %
Residential NOI:				
Same-store portfolio	120,891	111,673	9,218	8.3 %
Acquisitions	13,433	9,428	4,005	42.5 %
Development	(224)	(128)	(96)	75.0 %
Non-residential	676	792	(116)	(14.6)%
Total	134,776	121,765	13,011	10.7 %
Other NOI [(3)]	13,305	13,614	(309)	(2.3)%
Total NOI	$ 148,081	$ 135,379	$ 12,702	9.4 %

(1) Acquisitions:
2022: Elme Sandy Springs, Elme Cumberland, Elme Marietta
2023: Elme Druid Hills

(2) Non-residential: Includes revenues and expenses from retail operations at residential properties.

(3) Other (classified as continuing operations): Watergate 600

Real Estate Rental Revenue

Real estate rental revenue from our apartment communities is comprised of (a) rent from operating leases of residential apartments with terms of approximately one year or less, recognized on a straight-line basis, (b) revenue from the recovery of operating expenses from our residents, (c) credit losses on lease related receivables, (d) revenue from leases of retail space at our apartment communities and (e) parking and other tenant charges.

Real estate rental revenue from same-store residential properties increased $11.5 million, or 6.6%, to $186.0 million for 2023, compared to $174.5 million for 2022, primarily due to higher rental income ($10.4 million), higher recoveries ($1.1 million), lower rent abatements ($0.5 million) and higher fee and ancillary income ($0.8 million). The increase is partially offset by higher credit losses ($1.3 million).

Real estate rental revenue from acquisitions increased $7.5 million or 50.2% to $22.4 million for 2023, compared to $14.9 million for 2022, primarily due to the acquisitions of Elme Druid Hills ($2.6 million) during the third quarter of 2023, Elme Marietta ($2.6 million) and Elme Cumberland ($1.7 million) during the second quarter of 2022, and Elme Sandy Springs ($0.6 million) during the first quarter of 2022.

Average occupancy for residential properties for 2023 and 2022 was as follows:

December 31, 2023			December 31, 2022			% Change		
Same-Store	Non-Same-Store	Total	Same-Store	Non-Same-Store	Total	Same-Store	Non-Same-Store	Total
95.6 %	93.1 %	95.2 %	95.4 %	94.2 %	95.3 %	0.2 %	(1.1)%	(0.1)%

The increase in same-store average occupancy was primarily due to higher average occupancy at Elme Bethesda, The Paramount, Roosevelt Towers, Riverside Apartments and The Maxwell. The increase is partially offset by lower average occupancy at Elme Eagles Landing, Elme Manassas and Elme Conyers.

Real Estate Expenses

Residential real estate expenses as a percentage of residential revenue for 2023 and 2022 were 35.6% and 36.1%, respectively.

Real estate expenses from same-store residential properties increased $2.2 million, or 3.6%, to $65.1 million for 2023, compared to $62.8 million for 2022, primarily due to higher utilities ($0.9 million), contract services ($0.5 million), real estate taxes ($0.5 million), marketing ($0.4 million) and insurance ($0.4 million) expenses. The increase is partially offset by lower administrative ($0.3 million) and repairs and maintenance ($0.2 million) expenses.

Real estate expenses from acquisitions increased $3.5 million in 2023 due to the acquisitions of Elme Druid Hills ($0.9 million) during the third quarter of 2023, Elme Sandy Springs ($1.0 million) during the first quarter of 2022 and Elme Marietta ($0.9 million) and Elme Cumberland ($0.7 million) during the second quarter of 2022.

Other NOI

Other NOI decreased due to lower net operating income at Watergate 600 ($0.3 million).

Other Income and Expenses

Property management expenses: Increase of $0.7 million primarily due to higher management fee expenses at same-store properties ($0.4 million) and due to the acquisitions of Elme Druid Hills ($0.1 million) during the third quarter of 2023 and Elme Marietta ($0.1 million) and Elme Cumberland ($0.1 million) during the second quarter of 2022.

General and administrative expenses: Decrease of $2.4 million primarily due to higher management fee offset ($4.7 million), lower incentive compensation ($2.4 million) and an adjustment to deferred taxes ($0.5 million) in 2023. The decrease is partially offset by higher payroll ($2.0 million), computer software ($0.9 million), professional services fees ($0.7 million), employee benefits ($0.5 million), severance ($0.5 million), corporate office moving ($0.5 million), and other ($0.2 million) expenses.

Transformation costs: Decrease of $3.3 million primarily due to lower consulting ($1.9 million), lower accelerated depreciation ($0.9 million), lower salary, benefit, and incentive compensation ($0.6 million), lower software implementation ($0.5 million), and lower third-party management transition ($0.3 million) costs. The decrease is partially offset by higher signing bonuses for new employees ($0.9 million).

Depreciation and amortization: Decrease of $2.8 million primarily due to lower depreciation and amortization at same-store residential properties ($2.0 million), the acquisitions of Elme Sandy Springs ($1.7 million), Elme Marietta ($1.5 million) and Elme Cumberland ($0.3 million) and lower depreciation and amortization at Watergate 600 ($0.4 million). The decrease is partially offset by higher depreciation and amortization at Elme Druid Hills ($3.1 million).

Interest Expense: Interest expense by debt type for the years ended December 31, 2023 and 2022 was as follows (in thousands):

	Year Ended December 31,			
Debt Type	**2023**	**2022**	**$ Change**	**% Change**
Notes payable	$ 23,152	$ 20,458	$ 2,694	13.2 %
Mortgage notes payable	—	1,014	(1,014)	100.0 %
Line of credit	7,277	3,751	3,526	94.0 %
Capitalized interest	—	(283)	283	100.0 %
Total	$ 30,429	$ 24,940	$ 5,489	22.0 %

- *Notes payable*: Increase primarily due to the $125.0 million 2023 Term Loan executed in January 2023, partially offset by prepayment of a $100.0 million portion of the 2018 Term Loan in January 2023.
- *Mortgage notes payable*: Decrease due to the mortgages of $42.8 million and $33.7 million assumed in the acquisitions of Elme Marietta and Elme Cumberland, respectively, in the second quarter of 2022 and the extinguishment, in September 2022, of the liabilities associated with these mortgages though defeasance arrangements.
- *Line of credit*: Increase primarily due to a weighted average interest rate of 6.2% and weighted average borrowings of $70.6 million in 2023, as compared to a weighted average interest rate of 4.2% and weighted average borrowings of $21.6 million in 2022.
- *Capitalized interest*: Decrease primarily due to ceasing capitalization of interest on spending related to the multifamily development adjacent to Riverside Apartments due to a pause in development activities resulting from macroeconomic uncertainty.

Loss on extinguishment of debt: During 2022, we extinguished the liabilities associated with mortgage notes payable for Elme Marietta and Elme Cumberland through defeasance arrangements, recognizing aggregate losses on extinguishment of debt of $4.9 million.

Other income: Decrease of $0.1 million is due to lower tax refunds received in 2023 for office properties sold in prior years.

Real estate impairment: The real estate impairment charge of $41.9 million during 2023 reduced the carrying value of Watergate 600 to its estimated fair value (see note 3 to consolidated financial statements).

2022 Compared to 2021

For a discussion comparing the Company’s financial condition and results of operations for the year ended December 31, 2022 compared to the year ended December 31, 2021, refer to subsection “Results of Operations - 2022 Compared to 2021” of Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2022.

Liquidity and Capital Resources

We believe we will have adequate liquidity over the next twelve months to operate our business and to meet our cash requirements, including meeting our debt obligations, capital and contractual obligations, as well as the payment of dividends, and funding possible growth opportunities.

In connection with our strategic transformation, we redesigned our operating model for purposes of more efficiently and effectively supporting residential operations. We recognized $6.3 million and $9.7 million and $6.6 million of transformation costs, net of amounts capitalized, on the consolidated statements of operations during 2023, 2022 and 2021, respectively. We expect to realize significant operational benefits from this operating model redesign. We also believe we have adequate liquidity beyond 2023, with no debt maturities until 2025 and only $282.0 million of scheduled debt maturities prior to 2028, based on current amounts outstanding under our Revolving Credit Facility.

We will continue to assess the payment of our dividends on a quarterly basis. Future determinations regarding the declaration and payment of dividends, if any, will be at the discretion of our Board which considers, among other factors, trends in our levels of funds from operations and ongoing capital requirements to achieve a targeted payout ratio.

Capital Structure

We manage our capital structure to reflect a long-term investment approach, generally seeking to match the cash flow of our assets with a mix of equity and various debt instruments. We expect that our capital structure will allow us to obtain additional capital from diverse sources that could include additional equity offerings of common shares, public and private secured and unsecured debt financings, asset dispositions, operating units and joint venture equity. Our ability to raise funds through the incurrence of debt and issuance of equity securities is dependent on, among other things, general economic conditions including general market conditions for REITs, our operating performance, our debt rating, the current trading price of our common shares and other capital market conditions. We analyze which source of capital we believe to be most advantageous to us at any particular point in time.

As of February 13, 2024, we had cash and cash equivalents of approximately $5.8 million and availability under our Revolving Credit Facility of $535.0 million. We currently expect that our potential sources of liquidity for acquisitions, development, redevelopment, expansion and renovation of properties, and operating and administrative expenses, may include:

- Cash flow from operations;
- Borrowings under our Revolving Credit Facility or other new short-term facilities;
- Issuances of our equity securities and/or common units in operating partnerships;
- Issuances of preferred shares;
- Proceeds from long-term secured or unsecured debt financings, including construction loans and term loans, or the issuance of debt securities;
- Investment from joint venture partners; and
- Net proceeds from the sale of assets.

During 2024, we expect that we will have significant capital requirements, including the following:

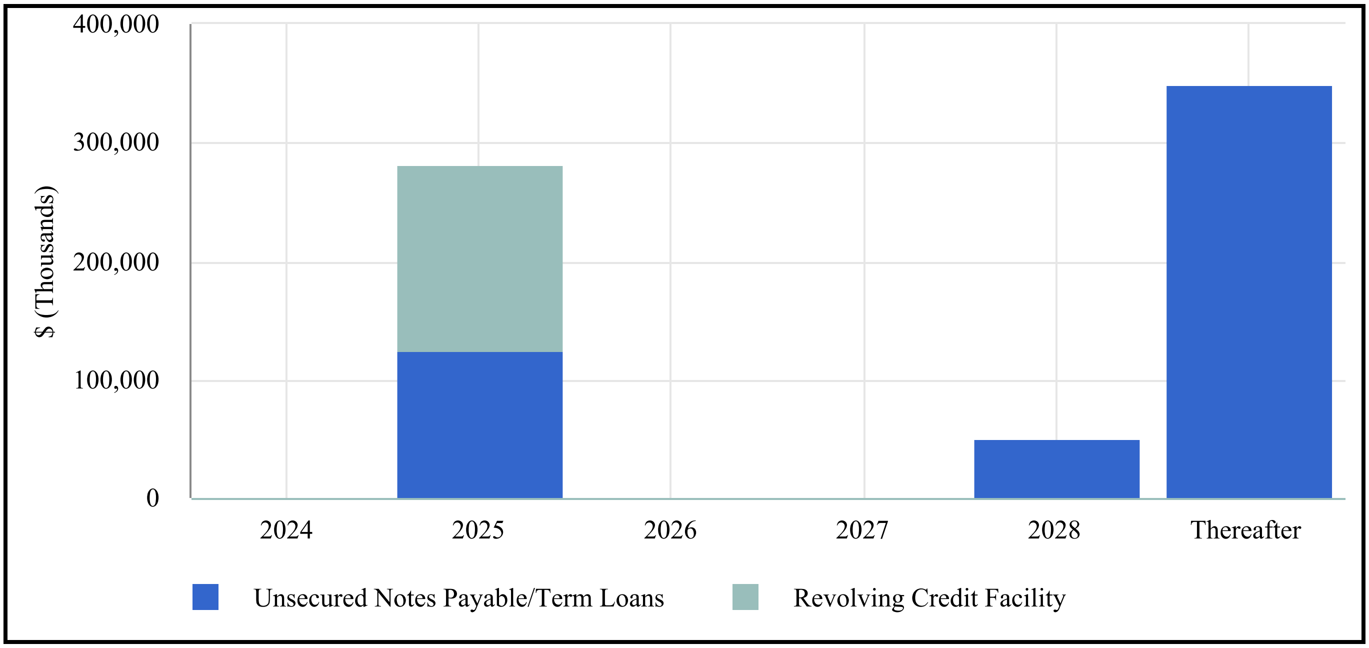
- Funding dividends and distributions to our shareholders (which we intend to continue to pay at or about current levels);
- Approximately $34.0 - $39.0 million to invest in our existing portfolio of operating assets inclusive of $23.0 - $28.0 million of major capital expenditures; and
- Funding for potential property acquisitions throughout 2024, offset by proceeds from potential property dispositions.

There can be no assurance that our capital requirements will not be materially higher or lower than the above expectations. We currently believe that we will generate sufficient cash flow from operations and potential property sales and have access to the capital resources necessary to fund our requirements in 2024. However, as a result of the uncertainty of the general market conditions in the greater Washington, DC metro and Sunbelt regions, economic conditions affecting the ability to attract and retain residents and tenants or achieve anticipated rental rates, declines in our share price, unfavorable changes in the supply of competing properties, or our properties not performing as expected, we may not generate sufficient cash flow from operations and property sales or otherwise have access to capital on favorable terms, or at all. If we are unable to obtain capital from other sources, we may need to alter capital spending to be materially different than what is stated above. If capital were not available, we may be unable to satisfy the distribution requirement applicable to REITs, make required principal and interest payments, make strategic acquisitions or make necessary and/or routine capital improvements or undertake improvement/redevelopment opportunities with respect to our existing portfolio of operating assets.

Debt Financing

We generally use secured or unsecured, corporate-level debt, including unsecured notes, our Revolving Credit Facility, bank term loans and mortgages, to meet our borrowing needs. Long-term, we generally use fixed rate debt instruments in order to match the returns from our real estate assets. If we issue unsecured debt in the future, we will seek to ladder the maturities of our debt to mitigate exposure to interest rate risk in any particular future year. We also utilize variable rate debt for short-term financing purposes. At times, our mix of variable and fixed rate debt may not suit our needs. At those times, we may use derivative financial instruments including interest rate swaps and caps, forward interest rate options or interest rate options in order to assist us in managing our debt mix. We may either hedge our variable rate debt to give it an effective fixed interest rate or hedge fixed rate debt to give it an effective variable interest rate.

As of December 31, 2023, our future debt principal payments are scheduled as follows (in thousands):



Year	Unsecured Notes Payable/Term Loans	Revolving Credit Facility	Total Debt	Average Interest Rate
2024	—	—	$ —	— %
2025	125,000 [1]	157,000 [2]	282,000	5.6 %
2026	—	—	—	— %
2027	—	—	—	— %
2028	50,000	—	50,000	7.4 %
Thereafter	350,000	—	350,000	4.1 %
Scheduled principal payments	525,000	157,000	682,000	4.9 %
Premiums and discounts, net	(94)	—	(94)	
Debt issuance costs, net	(2,561)	—	(2,561)	
Total	$ 522,345	$ 157,000	$ 679,345	4.9 %

(1) During the first quarter of 2023, we entered into the $125.0 million 2023 Term Loan with an interest rate of SOFR (subject to a credit spread adjustment of 10 basis points) plus a margin of 95 basis points (subject to adjustment depending on Elme Communities' credit rating). The 2023 Term Loan has a two-year term ending in January 2025, with two one-year extension options. We used the proceeds to prepay the $100.0 million 2018 Term Loan in full and a portion of our borrowings under our Revolving Credit Facility. Elme Communities had previously entered into an interest rate swap to effectively fix the interest rate for the remaining $100.0 million portion of the 2018 Term Loan. Following the prepayment of the 2018 Term Loan, the interest rate swap effectively fixed a $100.0 million portion of the 2023 Term Loan at 2.16% through the interest rate swap's expiration date of July 21, 2023. In March 2023, we entered into two interest rate swap arrangements with an aggregate notional amount of $125.0 million that effectively fixed the 2023 Term Loan's interest rate at 4.73% beginning on July 21, 2023 through the 2023 Term Loan's maturity date of January 10, 2025.

(2) The credit facility's term ends in August 2025, with two six-month extension options.

The weighted average maturity for our debt was 4.5 years as of December 31, 2023. If principal amounts due at maturity cannot be refinanced, extended or paid with proceeds of other capital transactions, such as new equity capital, our cash flow may be insufficient to repay all maturing debt. Prevailing interest rates or other factors at the time of a refinancing, such as possible reluctance of lenders to make commercial real estate loans, may result in higher interest rates and increased interest expense or inhibit our ability to finance our obligations.

From time to time, we may seek to repurchase and cancel our outstanding unsecured notes and term loans through open market purchases, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

Debt Covenants

Pursuant to the terms of our Revolving Credit Facility, 2023 Term Loan and unsecured notes, we are subject to customary operating covenants and maintenance of various financial ratios.

Failure to comply with any of the covenants under our Revolving Credit Facility, 2023 Term Loan, unsecured notes or other debt instruments could result in a default under one or more of our debt instruments. This could cause our lenders to accelerate the timing of payments and could therefore have a material adverse effect on our business, operations, financial condition and liquidity. In addition, our ability to draw on our Revolving Credit Facility or incur other unsecured debt in the future could be restricted by the debt covenants.

As of December 31, 2023, we were in compliance with the covenants related to our Revolving Credit Facility, 2023 Term Loan and unsecured notes.

Common Equity

We have authorized for issuance 150.0 million common shares, of which approximately 87.9 million shares were outstanding at December 31, 2023.

On February 17, 2021, we entered into separate amendments to each of our existing equity distribution agreements ("Original Equity Distribution Agreements") with each of Wells Fargo Securities, LLC, BNY Mellon Capital Markets, LLC, Capital One Securities, Inc., Citigroup Global Markets Inc., Goldman Sachs & Co. LLC, J.P. Morgan Securities LLC, KeyBanc Capital Markets Inc. and Truist Securities, Inc. (f/k/a SunTrust Robinson Humphrey, Inc.), each dated May 4, 2018 (collectively, as amended, the "Equity Distribution Agreements") for our at-the-market program. Also on February 17, 2021, we entered into a separate equity distribution agreement with BTIG, LLC on the same terms as the Amended Equity Distribution Agreements (the "BTIG Equity Distribution Agreement"). On September 22, 2021, BTIG, LLC notified us that it was terminating the BTIG Equity Distribution Agreement, effective as of September 27, 2021. Pursuant to the Equity Distribution Agreements, we may sell, from time to time, up to an aggregate price of $550.0 million of our common shares of beneficial interest, $0.01 par value per share. Issuances of our common shares are made at market prices prevailing at the time of issuance. We may use net proceeds from the issuance of common shares under this program for general business purposes, including, without limitation, working capital, the acquisition, renovation, expansion, improvement, development or redevelopment of income producing property or the repayment of debt.

We did not issue common shares under the Equity Distribution Agreements in 2023. Our issuances and net proceeds on the Equity Distribution Agreements in 2022 and 2021 and the Original Equity Distribution Agreements in 2021, were as follows (in thousands, except per share data):

	Year Ended December 31,		
	2023	2022	2021
Issuance of common shares	—	1,032	1,636
Weighted average price per share	$ —	$ 26.27	$ 25.44
Net proceeds	$ —	26,849	$ 40,462

We have a dividend reinvestment program, whereby shareholders may use their dividends and optional cash payments to purchase common shares. The common shares sold under this program may either be common shares issued by us or common shares purchased in the open market.

Our issuances and net proceeds on the dividend reinvestment program for the three years ended December 31, 2023 were as follows (in thousands; except per share data):

	Year Ended December 31,		
	2023	2022	2021
Issuance of common shares	28	47	75
Weighted average price per share	$ 17.64	$ 22.40	$ 23.37
Net proceeds	$ 497	$ 1,030	$ 1,744

On October 26, 2023, the Board authorized and approved a share repurchase program of up to $50.0 million of the Company's common shares of beneficial interest over a period of two years, subject to any applicable limitations or restrictions set forth in our existing credit facility and other debt agreements. The share repurchase program is scheduled to expire on October 25, 2025, unless extended by the Board.

Preferred Equity

Our Board can, at its discretion, authorize the issuance of up to 10.0 million preferred shares. The ability to issue preferred equity provides Elme Communities an additional financing tool that may be used to raise capital for future acquisitions or other business purposes. As of December 31, 2023, no preferred shares were issued and outstanding.

Capital Commitments

We will require capital for development and redevelopment projects currently underway and in the future. We previously engaged in predevelopment activities for the ground-up development of a residential property on land adjacent to Riverside Apartments, but as of the second quarter of 2022, we paused development activities. As of December 31, 2023, we had no outstanding contractual commitments related to our development and redevelopment projects and do not expect to spend on our development and redevelopment projects during 2024.

We anticipate funding approximately $23.0 - $28.0 million on several major renovation projects at our residential communities during 2024.

These projects include unit renovations, property technology initiatives, common area and mechanical upgrades, facade and retaining wall restorations and fire system upgrades. Not all of the anticipated spending had been committed via executed construction contracts at December 31, 2023. We expect to fund these projects using cash generated by our real estate operations, through borrowings on our Revolving Credit Facility, or raising additional debt or equity capital in the public market.

Contractual Obligations

As of December 31, 2023, certain contractual obligations will require significant capital as follows (in thousands):

	Payments due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt[1]	$ 806,442	$ 25,308	$ 336,918	$ 80,470	$ 363,746

(1) See notes 6 and 7 of the consolidated financial statements. Amounts include principal, interest and facility fees.

In addition to our long-term debt, we have committed building capital expenditures of $2.0 million in 2024 based on contracts in place as of December 31, 2023, along with other various standing or renewable contracts with vendors. The majority of these contracts can be canceled with immaterial or no cancellation penalties, with the exception of our elevator maintenance agreements and our electricity and gas purchase agreements. Contract terms on leases that can be canceled are generally one year or less.

Historical Cash Flows

Cash flows from operations are an important factor in our ability to sustain our dividend at its current rate. If our cash flows from operations were to decline significantly from current levels, we may have to reduce our dividend. Consolidated cash flows for the three years ended December 31, 2023 are summarized as follows (in thousands):

	Year ended December 31,			Variance	
	2023	2022	2021	2023 vs. 2022	2022 vs. 2021
Cash provided by operating activities	$ 84,669	$ 73,211	$ 89,156	$ 11,458	$ (15,945)
Cash (used in) provided by investing activities	(146,221)	(241,163)	702,170	94,942	(943,333)
Cash provided by (used in) financing activities	60,238	(56,416)	(565,396)	116,654	508,980

Net cash provided by operating activities increased in 2023 as compared to 2022 primarily due to higher rental revenue from the acquisitions of Elme Druid Hills in 2023 and Elme Sandy Springs, Elme Marietta and Elme Cumberland during 2022. Net cash provided by operating activities decreased in 2022 as compared to 2021 primarily due to the sales of twelve office properties (the "Office Portfolio") and eight retail properties (the "Retail Portfolio") during 2021 (see note 3 to the consolidated financial statements) and costs associated with our strategic transformation.

Net cash (used in) provided by investing activities decreased in 2023 as compared to 2022 primarily due to the acquisitions of Elme Sandy Springs, Elme Marietta and Elme Cumberland during 2022, partially offset by the acquisition of Elme Druid Hills during 2023. Net cash (used in) provided by investing activities decreased in 2022 as compared to 2021 primarily due to the sales of the Office Portfolio and the Retail Portfolio during 2021. These were partially offset by the acquisitions of Elme Conyers and Elme Eagles Landing during 2021 and acquisitions of Elme Marietta, Elme Cumberland and Elme Sandy Springs during 2022.

Net cash provided by (used in) financing activities increased in 2023 compared to 2022 primarily due to executing the $125.0 million 2023 Term Loan and net borrowings on the Revolving Credit Facility during 2023 and the repayment of mortgage notes during 2022. These were partially offset by the repayment of the $100.0 million 2018 Term Loan during 2023 and proceeds from equity issuances during 2022. Net cash (used in) provided by financing activities decreased in 2022 as compared to 2021 primarily due to a higher volume of debt repayments during 2021 and higher net proceeds from equity issuances and lower dividends paid in 2022.

Capital Improvements and Development Costs

Our capital improvement, development and redevelopment costs for the three years ended December 31, 2023 were as follows (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Accretive capital improvements and development costs:			
Acquisition related improvements	$ 6,379	$ 5,236	$ 7,218
Expansions and major renovations	22,340	21,476	17,096
Development/redevelopment	—	698	8,406
Tenant improvements (including first generation leases)	17	1,337	2,427
Total accretive capital improvements (1)	28,736	28,747	35,147
Other capital improvements:	9,482	8,464	5,669
Total	$ 38,218	$ 37,211	$ 40,816

(1) We consider these capital improvements to be accretive to revenue and not necessarily to net income.

Included in the capital improvement and development costs listed above are capitalized employee compensation in the amount of $2.3 million, $1.1 million and $1.6 million for the three years ended December 31, 2023, respectively, and while none for the year ended December 31, 2023, capitalized interest in the amount of $0.3 million and $0.8 million for the two years ended December 31, 2022, respectively.

Accretive Capital Improvements

Acquisition Related Improvements: Acquisition related improvements are capital improvements to properties acquired during the preceding three years which were anticipated at the time we acquired the properties. These types of improvements were made in 2023 to the Elme Cumberland, Elme Marietta, Elme Sandy Springs, Elme Eagles Landing and Elme Conyers.

Expansions and Major Renovations: Expansion projects increase the rentable area of a property, while major renovation projects are improvements sufficient to increase the income otherwise achievable at a property. Expansions and major renovations during 2023 included facade and unit renovations and fire alarm system and flooring replacement at Riverside Apartments; unit and hallway renovations at Elme Alexandria; retail space conversion into additional units at The Ashby; unit renovations and SmartRent installations at Elme Dulles; roof replacement and unit renovations at Park Adams and unit and facade renovations at Elme Manassas.

Development/Redevelopment: Development costs represent expenditures for ground up development of new operating properties. Redevelopment costs represent expenditures for improvements intended to reposition properties in their markets and generate more income than would be otherwise achievable. Development/redevelopment costs in 2022 and 2021 included predevelopment costs for a future residential development adjacent to Riverside Apartments, which is currently on hold.

Other Capital Improvements

Other capital improvements, also referred to as recurring capital improvements, are those not included in the above categories. Over time these costs will be recurring in nature to maintain a property's income and value. This category includes improvements made as needed upon vacancy of an apartment. Such improvements totaled $8.3 million in 2023, averaging approximately $2,200 per unit for the 42% of units which turned over relative to our total portfolio of apartment homes. Aside from improvements related to apartment turnover, these improvements include facade repairs, installation of new heating and air conditioning equipment, asphalt replacement, permanent landscaping, new lighting and new finishes. In addition, we incurred repair and maintenance expense of $4.0 million during 2023 to maintain the quality of our buildings.

Off Balance Sheet Arrangements

We have no off-balance sheet arrangements as of December 31, 2023 that are reasonably likely to have a current or future material effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Forward-Looking Statements

Some of the statements contained in this Form 10-K constitute forward-looking statements within the meaning of federal securities laws. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by the use of forward-looking terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” or “potential” or the negative of these words and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. Such statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, or achievements of Elme Communities to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Additional factors which may cause the actual results, performance or achievements of Elme Communities to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements include, but are not limited to:

(a) the risks associated with ownership of real estate in general and our real estate assets in particular;
(b) the economic health of the areas in which our properties are located, particularly with respect to the greater Washington, DC metro and Sunbelt regions;
(c) risks associated with our ability to execute on our strategies, including new strategies with respect to our operations and our portfolio, including the acquisition of apartment homes in the Sunbelt markets and our ability to realize any anticipated operational benefits from our internalization of community management functions;
(d) the risk of failure to enter into and/or complete acquisitions and dispositions;
(e) changes in the composition of our portfolio;
(f) reductions in or actual or threatened changes to the timing of federal government spending;
(g) the economic health of our residents;
(h) the impact from macroeconomic factors (including inflation, increases in interest rates, potential economic slowdowns or recessions and geopolitical conflicts);
(i) risks related to our ability to control our expenses if revenues decrease;
(j) compliance with applicable laws and corporate social responsibility goals, including those concerning the environment and access by persons with disabilities;
(k) risks related to not having adequate insurance to cover potential losses;
(l) changes in the market value of securities;
(m) terrorist attacks or actions and/or cyber-attacks;
(n) whether we will succeed in the day-to-day property management and leasing activities that we have previously outsourced;
(o) the availability and terms of financing and capital and the general volatility of securities markets;
(p) the risks related to our organizational structure and limitations of share ownership;
(q) failure to qualify and maintain our qualification as a REIT and the risks of changes in laws affecting REITs; and
(r) other factors discussed under the caption “Risk Factors.”

While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. For a further discussion of these and other factors that could cause our future results to differ materially from any forward-looking statements, see the section entitled "Risk Factors." We undertake no obligation to update our forward-looking statements or risk factors to reflect new information, future events, or otherwise.

Funds From Operations

NAREIT FFO is a widely used measure of operating performance for real estate companies. In its 2018 NAREIT FFO White Paper Restatement, the National Association of Real Estate Investment Trusts, Inc. ("NAREIT") defines NAREIT FFO as net income (computed in accordance with GAAP) excluding gains (or losses) associated with sales of properties; impairments of depreciable real estate, and real estate depreciation and amortization. We consider NAREIT FFO to be a standard supplemental measure for REITs, and believe it is a useful metric because it facilitates an understanding of the operating performance of our properties without giving effect to real estate depreciation and amortization, which historically assumes that the value of real estate assets diminishes predictably over time. Since real estate values have instead historically risen or fallen with market conditions, we believe that NAREIT FFO more accurately provides investors an indication of our ability to incur and service debt, make capital expenditures and fund other needs. Our NAREIT FFO may not be comparable to FFO reported by other REITs. These other REITs may not define the term in accordance with the current NAREIT definition or may interpret the current NAREIT definition differently.

The following table provides the calculation of our NAREIT FFO and a reconciliation of NAREIT FFO to net income for the three years ended December 31, 2023 (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Net (loss) income	$ (52,977)	$ (30,868)	$ 16,384
Adjustments:			
Depreciation and amortization	88,950	91,722	72,656
Real estate impairment	41,860	—	—
Discontinued operations:			
Depreciation and amortization	—	—	22,904
Gain on sale of depreciable real estate, net	—	—	(46,441)
NAREIT FFO	$ 77,833	$ 60,854	$ 65,503

Critical Accounting Estimates

We base the discussion and analysis of our financial condition and results of operations upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We evaluate these estimates on an on-going basis, including those related to estimated useful lives of real estate assets, estimated fair value of acquired leases, cost reimbursement income, bad debts, contingencies and litigation. We base the estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We cannot assure you that actual results will not differ from those estimates.

We believe the following accounting estimates are the most critical to aid in fully understanding our reported financial results, and they require our most difficult, subjective or complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain.

Accounting for Asset Acquisitions

We allocate the purchase price, including transaction costs, of acquired assets, including physical assets and in-place leases, and assumed liabilities, based on their fair values. We determine the estimated fair values of the assets and liabilities in accordance with current GAAP fair value provisions. We determine the fair values of acquired buildings on an "as-if-vacant" basis considering a variety of factors, including the replacement cost of the property, estimated rental and absorption rates, estimated future cash flows and valuation assumptions consistent with current market conditions. We determine the fair value of land acquired based on comparisons to similar properties that have been recently marketed for sale or sold.

The fair value of in-place leases is based upon our evaluation of the specific characteristics of the leases. Factors considered in the fair value analysis include the estimated cost to replace the leases, including foregone rents and expense reimbursements during hypothetical expected lease-up periods (referred to as “absorption cost”), consideration of current market conditions and costs to execute similar leases. We classify absorption costs as other assets and amortize absorption costs as amortization expense on a straight-line basis over the remaining life of the underlying leases.

Real Estate Impairment

We recognize impairment losses on long-lived assets used in operations, development assets or land held for future development, if indicators of impairment are present and the net undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Estimates of undiscounted cash flows are based on forward-looking assumptions, including annual and residual cash flows and our estimated holding period for each property. Such assumptions involve a high degree of judgment and could be affected by future economic and market conditions. When determining if a property has indicators of impairment, we evaluate the property's occupancy, our expected holding period for the property, strategic decisions regarding the property's future operations or development and other market factors. If such carrying amount is in excess of the estimated undiscounted cash flows from the operation and disposal of the property, we would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its estimated fair value, calculated in accordance with current GAAP fair value provisions. Assets held for sale are recorded at the lower of cost or fair value less costs to sell.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The principal material financial market risk to which we are exposed is interest rate risk. Our exposure to interest rate risk relates primarily to refinancing long-term fixed rate obligations, the opportunity cost of fixed rate obligations in a falling interest rate environment and our variable rate line of credit. We primarily enter into debt obligations to support general corporate purposes, including acquisition of real estate properties, capital improvements and working capital needs. We use interest rate swap arrangements to reduce our exposure to the variability in future cash flows attributable to changes in interest rates.

The table below presents principal, interest and related weighted average interest rates by year of maturity, with respect to debt outstanding on December 31, 2023 (dollars in thousands).

	2024	2025	2026	2027	2028	Thereafter	Total	Fair Value
Unsecured fixed rate debt								
Principal	—	$125,000 [1]	$ —	$ —	$50,000	$350,000	$ 525,000	$ 466,668
Interest payments	$ 23,908	$17,995	$17,995	$17,995	$16,155	$28,061	$ 122,109	
Interest rate on debt maturities	— %	5.6 %	— %	— %	7.4 %	4.1 %	4.9 %	
Unsecured variable rate debt								
Principal	—	$157,000	$ —	—	—	$ —	$ 157,000	$ 157,000
Variable interest rate on debt maturities		6.3 %					6.3 %	

(1) Represents a $125.0 million term loan with a floating interest rate. A $100.0 million portion of the term loan was previously effectively fixed by an interest rate swap that expired on July 21, 2023. The full amount of the term loan is effectively fixed by two interest rate swaps that became effective on July 21, 2023 and expire on the loan's maturity date of January 10, 2025.

We entered into the interest rate swap arrangements designated and qualifying as cash flow hedges to reduce our exposure to the variability in future cash flows attributable to changes in interest rates. Derivative instruments expose us to credit risk in the event of non-performance by the counterparty under the terms of the interest rate hedge agreement. We believe that we minimize our credit risk on these transactions by dealing with major, creditworthy financial institutions. As part of our ongoing control procedures, we monitor the credit ratings of counterparties and our exposure to any single entity, thus minimizing our credit risk concentration.

The following table sets forth information pertaining to interest rate swap contract in place as of December 31, 2023 and 2022 and its respective fair value (dollars in thousands):

				Termination/	Fair Value as of:	
Notional Amount	Fixed Rate	Floating Index Rate	Effective Date	Expiration Date	December 31, 2023	December 31, 2022
$ 100,000	1.205%	USD-SOFR	3/31/2017	7/21/2023	$ —	$ 1,998
75,000	3.677%	USD-SOFR	7/21/2023	1/10/2025	740	—
50,000	3.676%	USD-SOFR	7/21/2023	1/10/2025	494	—
					$ 1,234	$ 1,998

We enter into debt obligations primarily to support general corporate purposes including acquisition of real estate properties, capital improvements and working capital needs.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data appearing on pages 83 to 118 are incorporated herein by reference.

ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A: CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer, Chief Financial Officer and Chief Administrative Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer, Chief Financial Officer and Chief Administrative Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2023. Based on the foregoing, our Chief Executive Officer, Chief Financial Officer and Chief Administrative Officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level.

Internal Control over Financial Reporting

See the Report of Management in Item 8 of this Form 10-K.

See the Reports of Independent Registered Public Accounting Firm in Item 8 of this Form 10-K.

During the three months ended December 31, 2023, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B: OTHER INFORMATION

During the three months ended December 31, 2023, no trustee or officer of Elme Communities adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

Material U.S. Federal Income Tax Considerations

The following is a summary of certain material U.S. federal income tax considerations relating to our qualification and taxation as a real estate investment trust, a "REIT," and the acquisition, holding, and disposition of (i) our common shares, preferred shares and depositary shares (together with common shares and preferred shares, the "shares") as well as our warrants and rights, and (ii) certain debt securities that we may offer (together with the shares, the "securities"). For purposes of this discussion, references to "our Company," "we" and "us" mean only Elme Communities and not its subsidiaries or affiliates. This summary is based upon the Internal Revenue Code of 1986, as amended, (the "Code"), the Treasury Regulations, rulings and other administrative interpretations and practices of the Internal Revenue Service ("IRS") (including administrative interpretations and practices expressed in private letter rulings, which are binding on the IRS only with respect to the particular taxpayers who requested and received those rulings), and judicial decisions, all as currently in effect, and all of which are subject to differing interpretations or to change, possibly with retroactive effect. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax consequences described below. We have not sought and will not seek an advance ruling from the IRS regarding any matter discussed in this section. The summary is also based upon the assumption that we will operate the Company and its subsidiaries and affiliated entities in accordance with their applicable organizational documents. This summary is for general information only, and does not purport to discuss all aspects of U.S. federal income taxation that may be important to a particular investor in light of its investment or tax circumstances, or to investors subject to special tax rules, including:

- tax-exempt organizations, except to the extent discussed below in "—Taxation of U.S. Shareholders—Taxation of Tax-Exempt Shareholders" and "Taxation of Holders of Debt Securities-Tax-Exempt Holders of Debt Securities,"
- broker-dealers,
- non-U.S. corporations, non-U.S. partnerships, non-U.S. trusts, non-U.S. estates, or individuals who are not taxed as citizens or residents of the United States, all of which may be referred to collectively as "non-U.S. persons," except to the extent discussed below in "—Taxation of Non-U.S. Shareholders" and "—Taxation of Holders of Debt Securities —Non-U.S. Holders of Debt Securities,"
- trusts and estates,
- regulated investment companies ("RICs"),
- REITs, financial institutions,
- insurance companies,
- subchapter S corporations,
- foreign (non-U.S.) governments,
- persons subject to the alternative minimum tax provisions of the Code,
- persons holding the shares as part of a "hedge," "straddle," "conversion," "synthetic security" or other integrated investment,
- persons holding the shares through a partnership or similar pass-through entity,
- persons with a "functional currency" other than the U.S. dollar,
- persons holding 10% or more (by vote or value) of the beneficial interest in us, except to the extent discussed below,
- persons who do not hold the shares as a "capital asset," within the meaning of Section 1221 of the Code,
- corporations subject to the provisions of Section 7874 of the Code,
- U.S. expatriates,
- persons required for U.S. federal income tax purposes to accelerate the recognition of any item of gross income as a result of such income being recognized on an applicable financial statement, or
- persons otherwise subject to special tax treatment under the Code.

This summary does not address state, local or non-U.S. tax considerations. This summary also does not consider tax considerations that may be relevant with respect to securities we may issue, or selling security holders may sell, other than our shares and certain debt instruments described below. Each time we or selling security holders sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that sale and may add to, modify or update the discussion below, as appropriate.

Each prospective investor is advised to consult his or her tax advisor to determine the impact of his or her personal tax situation on the anticipated tax consequences of the acquisition, ownership and sale of our shares, warrants, rights and/or debt securities. This includes the U.S. federal, state, local, foreign and other tax considerations of the ownership and sale of our shares, warrants, rights and/or debt securities, and the potential changes in applicable tax laws.

Taxation of the Company as a REIT

We elected to be taxed as a REIT, commencing with our first taxable year ended December 31, 1960. A REIT generally is not subject to U.S. federal income tax on the "REIT taxable income" (generally, taxable income of the REIT subject to specified adjustments, including a deduction for dividends paid and excluding net capital gain) that it distributes to shareholders, provided that the REIT meets the annual REIT distribution requirement and the other requirements for qualification as a REIT under the Code. We believe that we are organized and have operated, and we intend to continue to operate, in a manner so as to qualify for taxation as a REIT under the Code. However, qualification and taxation as a REIT depend upon our ability to meet the various qualification tests imposed under the Code, including (through our actual annual (or in some cases quarterly) operating results) requirements relating to income, asset ownership, distribution levels and diversity of share ownership. Given the complex nature of the REIT qualification requirements, the ongoing importance of factual determinations and the possibility of future changes in our circumstances, we cannot provide any assurances that we will be organized or operated in a manner so as to satisfy the requirements for qualification and taxation as a REIT under the Code, or that we will meet such requirements in the future. See "—Failure to Qualify as a REIT."

The sections of the Code that relate to our qualification and taxation as a REIT are highly technical and complex. This discussion sets forth the material aspects of the Code sections that govern the U.S. federal income tax treatment of a REIT and its shareholders. This summary is qualified in its entirety by the applicable Code provisions, relevant rules and Treasury Regulations, and related administrative and judicial interpretations.

Taxation of REITs in General

For each taxable year in which we qualify for taxation as a REIT, we generally will not be subject to U.S. federal corporate income tax on our "REIT taxable income" (generally, taxable income subject to specified adjustments, including a deduction for dividends paid and excluding our net capital gain) that is distributed annually to our shareholders. This treatment substantially eliminates the "double taxation" at the corporate and shareholder levels that generally results from an investment in a non-REIT C corporation. A non-REIT C corporation is a corporation that generally is required to pay tax at the corporate level. Double taxation means taxation once at the corporate level when income is earned and once again at the shareholder level when the income is distributed. In general, the income that we generate is taxed only at the shareholder level upon a distribution of dividends to our shareholders.

U.S. shareholders generally will be subject to taxation on dividends distributed by us (other than designated capital gain dividends and "qualified dividend income") at rates applicable to ordinary income, instead of at lower capital gain rates. For taxable years beginning before January 1, 2026, generally, U.S. shareholders that are individuals, trusts or estates may deduct 20% of the aggregate amount of ordinary dividends distributed by us, subject to certain limitations. Capital gain dividends and qualified dividend income will continue to be subject to a maximum 20% rate (excluding the 3.8% tax on "net investment income").

Any net operating losses, foreign tax credits and other tax attributes of a REIT generally do not pass through to our shareholders, subject to special rules for certain items such as the net capital gain that we recognize.

Even if we qualify for taxation as a REIT, we will be subject to U.S. federal income tax in the following circumstances:

1. We will be taxed at regular corporate rates on any undistributed "REIT taxable income," including any undistributed net capital gain. REIT taxable income is the taxable income of the REIT subject to specified adjustments, including a deduction for dividends paid.

2. If we have (1) net income from the sale or other disposition of "foreclosure property" that is held primarily for sale to customers in the ordinary course of business, or (2) other non-qualifying income from foreclosure property, such income will be subject to tax at the highest corporate rate.

3. Our net income from "prohibited transactions" will be subject to a 100% penalty tax. In general, prohibited transactions are sales or other dispositions of property held primarily for sale to customers in the ordinary course of business, other than foreclosure property.

4. If we fail to satisfy either the 75% gross income test or the 95% gross income test, as discussed below, but our failure is due to reasonable cause and not due to willful neglect and we nonetheless maintain our qualification as a REIT because we satisfy specified cure provisions, we will be subject to a 100% tax on an amount equal to (a) the greater of (1) the amount by which we fail the 75% gross income test or (2) the amount by which we fail the 95% gross income test, as the case may be, multiplied by (b) a fraction intended to reflect our profitability.

5. We will be subject to a 4% nondeductible excise tax on the excess of the required calendar year distribution over the sum of the amounts actually distributed, excess distributions from the preceding tax year and amounts retained for which U.S. federal income tax was paid. The required distribution for each calendar year is equal to the sum of:

   - 85% of our REIT ordinary income for the year;
   - 95% of our REIT capital gain net income for the year, other than capital gains we elect to retain and pay tax on as described below; and
   - any undistributed taxable income from prior taxable years.

6. We will be subject to a 100% penalty tax on certain rental income we receive when a taxable REIT subsidiary provides services to our tenants, on certain expenses deducted by a taxable REIT subsidiary on payments made to us and on income for services rendered to us by a taxable REIT subsidiary, if the arrangements among us, our tenants, and our taxable REIT subsidiary do not reflect arm's-length terms.

7. If we acquire any assets from a non-REIT C corporation in a carry-over basis transaction, we would be liable for corporate income tax, at the highest applicable corporate rate, on the "built-in gain" inherent in those assets if we disposed of those assets within five years after they were acquired. To the extent that assets are transferred to us in a carry-over basis transaction by a partnership in which a non-REIT C corporation owns an interest, we will be subject to this tax in proportion to the non-REIT C corporation's interest in the partnership. Built-in gain is the amount by which an asset's fair market value exceeds its adjusted tax basis at the time we acquire the asset. The results described in this paragraph assume that the non-REIT C corporation or partnership transferor will not elect, in lieu of this treatment, to be subject to an immediate tax when the asset is acquired by us.

8. We may elect to retain and pay U.S. federal income tax on our net long-term capital gain. In that case, a U.S. shareholder would include its proportionate share of our undistributed long-term capital gain (to the extent that we make a timely designation of such gain to the shareholder) in its income, would be deemed to have paid the tax we paid on such gain, and would be allowed a credit for its proportionate share of the tax deemed to have been paid, and an adjustment would be made to increase the basis of the U.S. shareholder in our common shares.

9. If we violate an asset test (other than certain de minimis violations) or other requirements applicable to REITs, as described below, but our failure is due to reasonable cause and not due to willful neglect and we nevertheless maintain our REIT qualification because we satisfy specified cure provisions, we will be subject to a tax equal to the greater of $50,000 or the amount determined by multiplying the net income generated by such non-qualifying assets by the highest rate of tax applicable to non-REIT C corporations during periods when owning such assets would have caused us to fail the relevant asset test.

10. If we fail to satisfy a requirement under the Code and the failure would result in the loss of our REIT qualification, other than a failure to satisfy a gross income test or an asset test, as described above, but nonetheless maintain our qualification as a REIT because the requirements of certain relief provisions are satisfied, we will be subject to a penalty of $50,000 for each such failure.

11. If we fail to comply with the requirement to send annual letters to our shareholders requesting information regarding the actual ownership of our shares and the failure was not due to reasonable cause or was due to willful neglect, we will be subject to a $25,000 penalty or, if the failure is intentional, a $50,000 penalty.

12. The earnings of any subsidiaries that are non-REIT C corporations, including any taxable REIT subsidiaries, are subject to U.S. federal corporate income tax.

Notwithstanding our qualification as a REIT, we and our subsidiaries may be subject to a variety of taxes, including payroll taxes and state, local, and foreign income, property and other taxes on our assets, operations and/or net worth. We could also be subject to tax in situations and on transactions not presently contemplated.

Requirements for Qualification as a REIT

The Code defines a "REIT" as a corporation, trust or association:

(1) that is managed by one or more trustees or directors;

(2) that issues transferable shares or transferable certificates to evidence its beneficial ownership;

(3) that would be taxable as a domestic corporation, but for Sections 856 through 859 of the Code;

(4) that is neither a financial institution nor an insurance company within the meaning of certain provisions of the Code;

(5) that is beneficially owned by 100 or more persons;

(6) not more than 50% in value of the outstanding shares or other beneficial interest of which is owned, actually or constructively, by five or fewer individuals (as defined in the Code to include certain entities and as determined by applying certain attribution rules) during the last half of each taxable year;

(7) that makes an election to be a REIT for the current taxable year, or has made such an election for a previous taxable year that has not been revoked or terminated, and that satisfies all relevant filing and other administrative requirements established by the IRS that must be met to elect and maintain REIT status;

(8) that uses a calendar year for U.S. federal income tax purposes;

(9) that meets other applicable tests, described below, regarding the nature of its income and assets and the amount of its distributions; and

(10) that has no earnings and profits from any non-REIT taxable year at the close of any taxable year.

The Code provides that conditions (1), (2), (3) and (4) above must be met during the entire taxable year and condition (5) above must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months. Conditions (5) and (6) do not apply until after the first taxable year for which an election is made to be taxed as a REIT. Condition (6) must be met during the last half of each taxable year. For purposes of determining share ownership under condition (6) above, a supplemental unemployment compensation benefits plan, a private foundation or a portion of a trust permanently set aside or used exclusively for charitable purposes generally is considered an individual. However, a trust that is a qualified trust under Code Section 401(a) generally is not considered an individual, and beneficiaries of a qualified trust are treated as holding shares of a REIT in proportion to their actuarial interests in the trust for purposes of condition (6) above.

We believe that we have been organized, have operated and have issued sufficient shares of beneficial interest with sufficient diversity of ownership to allow us to satisfy the above conditions. In addition, our declaration of trust contains restrictions regarding the transfer of shares of beneficial interest that are intended to assist us in continuing to satisfy the share ownership requirements described in conditions (5) and (6) above. If we fail to satisfy these share ownership requirements, we will fail to qualify as a REIT unless we qualify for certain relief provisions described below under "—Requirements for Qualification as a REIT-Relief from Violations; Reasonable Cause."

To monitor our compliance with condition (6) above, we are generally required to maintain records regarding the actual ownership of our shares. To do so, we must demand written statements each year from the record holders of specified percentages of our shares pursuant to which the record holders must disclose the actual owners of the shares (i.e., the persons required to include in gross income the dividends paid by us). We must maintain a list of those persons failing or refusing to comply with this demand as part of our records. We could be subject to monetary penalties if we fail to comply with these record-keeping requirements. A shareholder that fails or refuses to comply with the demand is required by Treasury Regulations to submit a statement with its tax return disclosing the actual ownership of our shares and other information. If we comply with the record-keeping requirement and we do not know or, exercising reasonable diligence, would not have known of our failure to meet condition (6) above, then we will be treated as having met condition (6) above.

To qualify as a REIT, we cannot have at the end of any taxable year any undistributed earnings and profits that are attributable to a non-REIT taxable year. We elected to be taxed as a REIT beginning with our first taxable year in 1960 and we have not succeeded to any earnings and profits of a regular corporation. Therefore, we do not believe we have had any undistributed non-REIT earnings and profits.

Relief from Violations; Reasonable Cause

The Code provides relief from violations of the REIT gross income requirements, as described below under "—Requirements for Qualification as a REIT—Gross Income Tests," in cases where a violation is due to reasonable cause and not to willful neglect, and other requirements are met, including the payment of a penalty tax that is based upon the magnitude of the violation. In addition, certain provisions of the Code extend similar relief in the case of certain violations of the REIT asset requirements (see "—Requirements for Qualification as a REIT—Asset Tests" below) and other REIT requirements, again provided that the violation is due to reasonable cause and not willful neglect, and other conditions are met, including the payment of a penalty tax. If we did not have reasonable cause for a failure, we would fail to qualify as a REIT. Whether we would have reasonable cause for any such failure cannot be known with certainty, because the determination of whether reasonable cause exists depends on the facts and circumstances at the time and we cannot provide any assurance that we in fact would have reasonable cause for a particular failure or that the IRS would not successfully challenge our view that a failure was due to reasonable cause. Moreover, we may be unable to actually rectify a failure and restore asset test compliance within the required timeframe due to the inability to transfer or otherwise dispose of assets, including as a result of restrictions on transfer imposed by our lenders or undertakings with our co-investors and/or the inability to acquire additional qualifying assets due to transaction risks, access to additional capital or other considerations. If we fail to satisfy any of the various REIT requirements, there can be no assurance that these relief provisions would be available to enable us to maintain our qualification as a REIT, and, if such relief provisions are available, the amount of any resultant penalty tax could be substantial.

Effect of Subsidiary Entities

Ownership of Partnership Interests. In the case of a REIT that is a partner in an entity that is treated as a partnership for U.S. federal income tax purposes, Treasury Regulations provide that the REIT is deemed to own its proportionate share of the partnership's assets, and to earn its proportionate share of the partnership's income, for purposes of the asset and gross income tests applicable to REITs, as described below. A REIT's proportionate share of a partnership's assets and income is based on the REIT's pro rata share of the capital interests in the partnership. The Company's capital interest in a partnership is calculated based on either the Company's percentage ownership of the capital of the partnership or based on the allocations provided in the applicable partnership or limited liability company operating agreement, using the more conservative calculation. However, solely for purposes of the 10% value test, described below, the determination of a REIT's interest in the partnership's assets is based on the REIT's proportionate interest in the equity and certain debt securities issued by the partnership. In addition, the assets and gross income of the partnership are deemed to retain the same character in the hands of the REIT. Thus, our proportionate share of the assets and items of income of any of our subsidiary partnerships, which include the assets, liabilities, and items of income of any partnership in which our subsidiary partnership holds an interest, are treated as our assets and items of income for purposes of applying the REIT requirements.

Any investment in partnerships involves special tax considerations, including the possibility of a challenge by the IRS of the status of any subsidiary partnership as a partnership, as opposed to an association taxable as a corporation, for U.S. federal income tax purposes. If any of these entities were treated as an association for U.S. federal income tax purposes, it would be taxable as a corporation and therefore could be subject to an entity-level tax on its income. In such a situation, the character of our assets and items of gross income would change and could preclude us from satisfying the REIT asset tests or the gross income tests as discussed in "—Requirements for Qualification as a REIT—Asset Tests" and "—Requirements for Qualification as a REIT—Gross Income Tests," and in turn could prevent us from qualifying as a REIT, unless we are eligible for relief from the violation pursuant to relief provisions. See "—Requirements for Qualification as a REIT—Relief from Violations; Reasonable Cause" above, and "—Requirements for Qualification as a REIT—Gross Income Tests," "—Requirements for Qualification as a REIT—Asset Tests" and "—Requirements for Qualification as a REIT— Failure to Qualify as a REIT," below, for discussion of the effect of failure to satisfy the REIT tests for a taxable year, and of the relief provisions. In addition, any change in the status of any subsidiary partnership for tax purposes might be treated as a taxable event, in which case we could have taxable income that is subject to the REIT distribution requirements without receiving any cash.

Under the Bipartisan Budget Act of 2015, liability is imposed on the partnership (rather than its partners) for adjustments to reported partnership taxable income resulting from audits or other tax proceedings. The liability can include an imputed underpayment of tax, calculated by using the highest marginal U.S. federal income tax rate, as well as interest and penalties on such imputed underpayment of tax. Using certain rules, partnerships may be able to transfer these liabilities to their partners. In the event any adjustments are imposed by the IRS on the taxable income reported by any subsidiary partnerships, we intend to utilize certain rules to the extent possible to allow us to transfer any liability with respect to such adjustments to the partners of the subsidiary partnerships who should properly bear such liability. However, there is no assurance that we will qualify under those rules or that we will have the authority to use those rules under the operating agreements for certain of our subsidiary partnerships.

We may from time to time be a limited partner or non-managing member in some of our partnerships and limited liability companies. If a partnership or limited liability company in which we own an interest takes or expects to take actions that could jeopardize our status as a REIT or requires us to pay tax, we may be forced to dispose of our interest in such entity. In addition, it is possible that a partnership or limited liability company could take an action which could cause us to fail a gross income or asset test, and that we would not become aware of such action in time to dispose of our interest in the partnership or limited liability company or take other corrective action on a timely basis. In that case, we could fail to qualify as a REIT unless we were entitled to relief, as described below.

Ownership of Disregarded Subsidiaries. If a REIT owns a corporate subsidiary that is a "qualified REIT subsidiary," or QRS, that subsidiary is generally disregarded for U.S. federal income tax purposes, and all assets, liabilities and items of income, deduction and credit of the subsidiary are treated as assets, liabilities and items of income, deduction and credit of the REIT itself, including for purposes of the gross income and asset tests applicable to REITs, as described below. A QRS is any corporation, other than a taxable REIT subsidiary, that is directly or indirectly wholly owned by a REIT. Other entities that are wholly owned by us, including single member limited liability companies that have not elected to be taxed as corporations for U.S. federal income tax purposes, are also generally disregarded as separate entities for U.S. federal income tax purposes, including for purposes of the REIT income and asset tests. Disregarded subsidiaries, along with any partnerships in which we hold an equity interest, are sometimes referred to herein as "pass-through subsidiaries."

In the event that a disregarded subsidiary ceases to be wholly owned by us (for example, if any equity interest in the subsidiary is acquired by a person other than us or another disregarded subsidiary of ours) the subsidiary's separate existence would no longer be disregarded for U.S. federal income tax purposes. Instead, the subsidiary would have multiple owners and would be treated as either a partnership or a taxable corporation. Such an event could, depending on the circumstances, adversely affect our ability to satisfy the various asset and gross income requirements applicable to REITs, including the requirement that REITs generally may not own, directly or indirectly, more than 10% of the securities of another corporation unless it is a taxable REIT subsidiary or a QRS. See "—Requirements for Qualification as a REIT—Gross Income Tests" and "—Requirements for Qualification as a REIT—Asset Tests."

Ownership of Interests in Taxable REIT Subsidiaries. Our taxable REIT subsidiary (and any taxable REIT subsidiary we may form in the future) is a corporation other than a REIT in which we directly or indirectly hold stock, and that has made a joint election with us to be treated as a taxable REIT subsidiary under Section 856(l) of the Code. A taxable REIT subsidiary also includes any corporation other than a REIT in which a taxable REIT subsidiary of ours owns, directly or indirectly, securities (other than certain "straight debt" securities), which represent more than 35% of the total voting power or value of the outstanding securities of such corporation. Other than some activities relating to lodging and health care facilities, a taxable REIT subsidiary may generally engage in any business, including the provision of customary or non-customary services to our tenants without causing us to receive impermissible tenant service income under the REIT gross income tests. A taxable REIT subsidiary is required to pay regular U.S. federal income tax, and state and local income tax where applicable, as a regular corporation. In addition, a taxable REIT subsidiary may be prevented from deducting interest on debt, including debt funded directly or indirectly by us, if certain tests are not satisfied. If dividends are paid to us by our taxable REIT subsidiary, then a portion of the dividends we distribute to shareholders who are taxed at individual rates will generally be eligible for taxation at lower capital gains rates, rather than at ordinary income rates. See "—Taxation of U.S. Shareholders—Taxation of Taxable U.S. Shareholders-Qualified Dividend Income."

Generally, a taxable REIT subsidiary can perform impermissible tenant services without causing us to receive impermissible tenant services income under the REIT income tests. However, several provisions applicable to the arrangements between us and our taxable REIT subsidiary ensure that such taxable REIT subsidiary will be subject to an appropriate level of U.S. federal income taxation. For example, taxable REIT subsidiaries are limited in their ability to deduct interest payments in excess of a certain amount, including interest payments made directly or indirectly to us, as described below in "—Annual Distribution Requirements." In addition, we will be obligated to pay a 100% penalty tax on some payments we receive or on certain expenses deducted by our taxable REIT subsidiary, and on income earned by our taxable REIT subsidiary for services provided to, or on behalf of, us, if the economic arrangements between us, our tenants and such taxable REIT subsidiary are not comparable to similar arrangements among unrelated parties. Our taxable REIT subsidiary, and any future taxable REIT subsidiaries acquired by us, may make interest and other payments to us and to third parties in connection with activities related to our properties. There can be no assurance that our taxable REIT subsidiary will not be limited in its ability to deduct interest payments made to us. In addition, there can be no assurance that the IRS might not seek to impose the 100% excise tax on a portion of payments received by us from, or expenses deducted by, or service income imputed to, our taxable REIT subsidiary.

We currently own one subsidiary that has elected to be treated as taxable REIT subsidiaries for U.S. federal income tax purposes. Our taxable REIT subsidiary is taxable as a regular corporation and has elected, together with us, to be treated as our taxable REIT subsidiary. We may elect, together with other corporations in which we may own directly or indirectly stock, for those corporations to be treated as our taxable REIT subsidiaries.

Gross Income Tests

To qualify as a REIT, we must satisfy two gross income tests that are applied on an annual basis. First, in each taxable year, at least 75% of our gross income (excluding gross income from prohibited transactions, certain hedging transactions, as described below, and certain foreign currency transactions) must be derived from investments relating to real property or mortgages on real property, generally including:

- "rents from real property";

- dividends or other distributions on, and gain from the sale of, shares in other REITs;

- gain from the sale of real property or mortgages on real property, in either case, not held for sale to customers;

- interest income derived from mortgage loans secured by real property; and

- income attributable to temporary investments of new capital in stocks and debt instruments during the one-year period following our receipt of new capital that we raise through equity offerings or issuance of debt obligations with at least a five-year term.

Second, at least 95% of our gross income in each taxable year (excluding gross income from prohibited transactions, certain hedging transactions, as described below, and certain foreign currency transactions) must be derived from some combination of income that qualifies under the 75% gross income test described above, as well as other income sources generally including (a) other dividends, (b) interest (including interest income from debt instruments issued by publicly offered REITs), and (c) gain from the sale or disposition of stock or securities (including gain from the sale or other disposition of debt instruments issued by publicly offered REITs), in either case, not held for sale to customers.

Gross income from certain hedging transactions is excluded from gross income for purposes of the 95% gross income requirement. Similarly, gross income from certain hedging transactions is excluded from gross income for purposes of the 75% gross income test. Income from, and gain from the termination of, certain hedging transactions, where the property or indebtedness that was the subject of the prior hedging transaction was extinguished or disposed of, also will be excluded from gross income for purposes of either the 75% gross income test or the 95% gross income test. See "—Requirements for Qualification as a REIT—Gross Income Tests—Income from Hedging Transactions."

Rents from Real Property. Rents we receive will qualify as "rents from real property" for the purpose of satisfying the gross income requirements for a REIT described above only if several conditions are met. These conditions relate to the identity of the tenant, the computation of the rent payable, and the nature of the property lease.

- First, the amount of rent must not be based in whole or in part on the income or profits of any person. However, an amount we receive or accrue generally will not be excluded from the term "rents from real property" solely by reason of being based on a fixed percentage or percentages of receipts or sales;

- Second, we, or an actual or constructive owner of 10% or more of our shares, must not actually or constructively own 10% or more of the interests in the tenant, or, if the tenant is a corporation, 10% or more of the voting power or value of all classes of stock of the tenant. Rents received from such tenant that is a taxable REIT subsidiary, however, will not be excluded from the definition of "rents from real property" as a result of this condition if either (i) at least 90% of the space at the property to which the rents relate is leased to third parties, and the rents paid by the taxable REIT subsidiary are comparable to rents paid by our other tenants for comparable space or (ii) the property is a qualified lodging facility or a qualified health care property and such property is operated on behalf of the taxable REIT subsidiary by a person who is an "eligible independent contractor" (as described below) and certain other requirements are met;

- Third, rent attributable to personal property, leased in connection with a lease of real property, must not be greater than 15% of the total rent received under the lease. If this requirement is not met, then the portion of rent attributable to personal property will not qualify as "rents from real property"; and

- Fourth, for rents to qualify as rents from real property for the purpose of satisfying the gross income tests, we generally must not operate or manage the property or furnish or render services to the tenants of such property, other than through an "independent contractor" who is adequately compensated and from whom we derive no revenue or through a taxable REIT subsidiary. To the extent that impermissible services are provided by an independent contractor, the cost of the services generally must be borne by the independent contractor. We anticipate that any services we provide directly to tenants will be "usually or customarily rendered" in connection with the rental of space for occupancy only and not otherwise considered to be provided for the tenants' convenience. We may provide a minimal amount of "non-customary" services to tenants of our properties, other than through an independent contractor or a taxable REIT subsidiary, but we intend that our income from these services will not exceed 1% of our total gross income from the property. If the impermissible tenant services income exceeds 1% of our total income from a property, then all of the income from that property will fail to qualify as rents from real property. If the total amount of impermissible tenant services income does not exceed 1% of our total income from the property, the services will not "taint" the other income from the property (that is, it will not cause the rent paid by tenants of that property to fail to qualify as rents from real property), but the impermissible tenant services income will not qualify as rents from real property. We will be deemed to have received income from the provision of impermissible services in an amount equal to at least 150% of our direct cost of providing the service.

We monitor (and intend to continue to monitor) the activities provided at, and the non-qualifying income arising from, our properties and believe that we have not provided services at levels that will cause us to fail to meet the income tests. We provide services and may provide access to third-party service providers at some or all of our properties. Based upon our experience in the markets where the properties are located, we believe that all access to service providers and services provided to tenants by us (other than through a qualified independent contractor or a taxable REIT subsidiary) either are usually or customarily rendered in connection with the rental of real property and not otherwise considered rendered to the occupant, or, if considered impermissible services, will not result in an amount of impermissible tenant service income that will cause us to fail to meet the income test requirements. However, we cannot provide any assurance that the IRS will agree with these positions.

Income we receive that is attributable to the rental of parking spaces at the properties will constitute rents from real property for purposes of the REIT gross income tests if the services provided with respect to the parking facilities are performed by independent contractors from whom we derive no income, either directly or indirectly, or by a taxable REIT subsidiary. We believe that the income we receive that is attributable to parking facilities will meet these tests and, accordingly, will constitute rents from real property for purposes of the REIT gross income tests.

Interest Income. "Interest" generally will be non-qualifying income for purposes of the 75% or 95% gross income tests if it depends in whole or in part on the income or profits of any person. However, interest based on a fixed percentage or percentages of receipts or sales may still qualify under the gross income tests. We do not expect to derive significant amounts of interest that will not qualify under the 75% and 95% gross income tests.

Dividend Income. Our share of any dividends received from any taxable REIT subsidiaries will qualify for purposes of the 95% gross income test but not for purposes of the 75% gross income test. We do not anticipate that we will receive sufficient dividends from any taxable REIT subsidiaries to cause us to exceed the limit on non-qualifying income under the 75% gross income test. Dividends that we receive from other qualifying REITs will qualify for purposes of both REIT income tests.

Income from Hedging Transactions. From time to time we may enter into hedging transactions with respect to one or more of our assets or liabilities. Any such hedging transactions could take a variety of forms, including the use of derivative instruments such as interest rate swap or cap agreements, option agreements, and futures or forward contracts. Income of a REIT, including income from a pass-through subsidiary, arising from "clearly identified" hedging transactions that are entered into to manage the risk of interest rate or price changes with respect to borrowings, including gain from the disposition of such hedging transactions, to the extent the hedging transactions hedge indebtedness incurred, or to be incurred, by the REIT to acquire or carry real estate assets (each such hedge, a "Borrowings Hedge"), will not be treated as gross income for purposes of either the 95% gross income test or the 75% gross income test. Income of a REIT arising from hedging transactions that are entered into to manage the risk of currency fluctuations with respect to our investments (each such hedge, a "Currency Hedge") will not be treated as gross income for purposes of either the 95% gross income test or the 75% gross income test provided that the transaction is "clearly identified." This exclusion from the 95% and 75% gross income tests also will apply if we previously entered into a Borrowings Hedge or a Currency Hedge, a portion of the hedged indebtedness or property is disposed of, and in connection with such extinguishment or disposition we enter into a new "clearly identified" hedging transaction to offset the prior hedging position. In general, for a hedging transaction to be "clearly identified," (1) it must be identified as a hedging transaction before the end of the day on which it is acquired, originated, or entered into; and (2) the items of risks being hedged must be identified "substantially contemporaneously" with entering into the hedging transaction (generally not more than 35 days after entering into the hedging transaction). To the extent that we hedge with other types of financial instruments or in other situations, the resultant income will be treated as income that does not qualify under the 95% or 75% gross income tests unless the hedge meets certain requirements, and we elect to integrate it with a specified asset and to treat the integrated position as a synthetic debt instrument. We intend to structure any hedging transactions in a manner that does not jeopardize our qualification as a REIT, but there can be no assurance we will be successful in this regard.

Income from Forward Sale Agreements. We may enter into forward sale agreements from time to time and, subject to certain conditions, we have the right to elect physical, cash or net share settlement under these agreements at any time and from time to time, in part or in full. In the event that we elect to settle a forward sale agreement for cash and the settlement price is below the forward sale price, we would be entitled to receive a cash payment from the applicable forward purchaser(s). Under Section 1032 of the Code, generally, no gains and losses are recognized by a corporation in dealing in its own shares, including pursuant to a "securities futures contract," as defined in the Code by reference to the Securities Exchange Act of 1934. Although we believe that any amount received by us in exchange for our common shares would qualify for the exemption under Section 1032 of the Code, because it is not entirely clear whether a forward sale agreement qualifies as a "securities futures contract," the U.S. federal income tax treatment of any cash settlement payment we receive is uncertain. In the event that we recognize a significant gain from the cash settlement of a forward sale agreement, we might not be able to satisfy the gross income requirements applicable to REITs under the Code. If we were to fail to satisfy one or both of the gross income tests for any taxable year, we may nevertheless qualify as a REIT for such year if we were entitled to relief under certain provisions of the Code, as described below. If these relief provisions were inapplicable, we would not qualify to be taxed as a REIT.

Income from Prohibited Transactions. Any gain that we realize on the sale of any property held as inventory or otherwise held primarily for sale to customers in the ordinary course of business, either directly or through pass-through subsidiaries, will be treated as income from a prohibited transaction that is subject to a 100% penalty tax. Under existing law, whether property is held as inventory or primarily for sale to customers in the ordinary course of a trade or business is a question of fact that depends on all the facts and circumstances surrounding the particular transaction. However, we will not be treated as a dealer in real property for purposes of the 100% tax with respect to a real estate asset that we sell if (i) we have held the property for at least two years for the production of rental income prior to the sale, (ii) capitalized expenditures on the property in the two years preceding the sale are less than 30% of the net selling price of the property, and (iii) we either (a) have seven or fewer sales of property (excluding certain property obtained through foreclosure) for the year of sale; or (b) the aggregate adjusted basis of property sold during the year is 10% or less of the aggregate adjusted basis of all of our assets as of the beginning of the taxable year; or (c) the fair market value of property sold during the year is 10% or less of the aggregate fair market value of all of our assets as of the beginning of the taxable year; or (d) the aggregate adjusted basis of property sold during the year is 20% or less of the aggregate adjusted basis of all of our assets as of the beginning of the taxable year and the aggregate adjusted basis of property sold during the 3-year period ending with the year of sale is 10% or less of the aggregate tax basis of all of our assets as of the beginning of each of the 3 taxable years ending with the year of sale; or (e) the fair market value of property sold during the year is 20% or less of the aggregate fair market value of all of our assets as of the beginning of the taxable year and the fair market value of property sold during the 3-year period ending with the year of sale is 10% or less of the aggregate fair market value of all of our assets as of the beginning of each of the 3 taxable years ending with the year of sale. If we rely on clauses (b), (c), (d), or (e) in the preceding sentence, substantially all of the marketing and development expenditures with respect to the property sold must be made through an independent contractor from whom we derive no income or, a taxable REIT subsidiary. The sale of more than one property to one buyer as part of one transaction constitutes one sale for purposes of this "safe harbor." 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 as are consistent with our investment objectives. However, the IRS may successfully contend that some or all of the sales made by us or subsidiary partnerships or limited liability companies are prohibited transactions. In that case, we would be required to pay the 100% penalty tax on our allocable share of the gains resulting from any such sales.

Income from Foreclosure Property. We generally will be subject to tax at the maximum corporate rate (currently 21%) on any net income from foreclosure property, including any gain from the disposition of the foreclosure property, other than income that constitutes qualifying income for purposes of the 75% gross income test. Foreclosure property is real property and any personal property incident to such real property (1) that we acquire as the result of having bid on the property at foreclosure, or having otherwise reduced the property to ownership or possession by agreement or process of law, after a default (or upon imminent default) on a lease of the property or a mortgage loan held by us and secured by the property, (2) for which we acquired the related loan or lease at a time when default was not imminent or anticipated, and (3) with respect to which we made a proper election to treat the property as foreclosure property. Any gain from the sale of property for which a foreclosure property election has been made and remains in place generally will not be subject to the 100% tax on gains from prohibited transactions described above, even if the property would otherwise constitute inventory or dealer property. To the extent that we receive any income from foreclosure property that does not qualify for purposes of the 75% gross income test, we intend to make an election to treat the related property as foreclosure property if the election is available (which may not be the case with respect to any acquired "distressed loans").

Failure to Satisfy the Gross Income Tests. If we fail to satisfy one or both of the 75% or 95% gross income tests for any taxable year, we may nevertheless qualify as a REIT for that year if we are entitled to relief under the Code. These relief provisions will be generally available if (1) our failure to meet these tests was due to reasonable cause and not due to willful neglect and (2) following our identification of the failure to meet the 75% and/or 95% gross income tests for any taxable year, we file a schedule with the IRS setting forth a description of each item of our gross income that satisfies the gross income tests for purposes of the 75% or 95% gross income test for such taxable year in accordance with Treasury Regulations. It is not possible, however, to state whether in all circumstances we would be entitled to the benefit of these relief provisions. If these relief provisions are inapplicable to a particular set of circumstances, we will fail to qualify as a REIT. As discussed above, under "—Taxation of the Company as a REIT—General," even if these relief provisions apply, a tax would be imposed based on the amount of non-qualifying income. We intend to take advantage of any and all relief provisions that are available to us to cure any violation of the income tests applicable to REITs.

Redetermined Amounts. Any redetermined rents, redetermined deductions, excess interest, or redetermined taxable REIT subsidiary service income we generate will be subject to a 100% penalty tax. In general, redetermined rents are rents from real property that are overstated as a result of services furnished by one of our taxable REIT subsidiaries to any of our tenants, redetermined deductions and excess interest represent amounts that are deducted by a taxable REIT subsidiary for amounts paid to us that are in excess of the amounts that would have been deducted based on arm's-length negotiations, and redetermined taxable REIT subsidiary service income is gross income (less deductions allocable thereto) of a taxable REIT subsidiary attributable to services provided to, or on behalf of, us that is less than the amounts that would have been paid by us to the taxable REIT subsidiary if based on arm's-length negotiations. Rents we receive will not constitute redetermined rents if they qualify for the safe harbor provisions contained in the Code. Safe harbor provisions are provided where:

- amounts are excluded from the definition of impermissible tenant service income as a result of satisfying the 1% de minimis exception;

- a taxable REIT subsidiary renders a significant amount of similar services to unrelated parties and the charges for such services are substantially comparable;

- rents paid to us by tenants leasing at least 25% of the net leasable space of the REIT's property who are not receiving services from the taxable REIT subsidiary are substantially comparable to the rents paid by the REIT's tenants leasing comparable space who are receiving such services from the taxable REIT subsidiary and the charge for the service is separately stated; or

- the taxable REIT subsidiary's gross income from the service is not less than 150% of the taxable REIT subsidiary's direct cost of furnishing the service.

While we anticipate that any fees paid to a taxable REIT subsidiary for tenant services will reflect arm's-length rates, a taxable REIT subsidiary may under certain circumstances provide tenant services which do not satisfy any of the safe-harbor provisions described above. Nevertheless, these determinations are inherently factual, and the IRS has broad discretion to assert that amounts paid between related parties should be reallocated to clearly reflect their respective incomes. If the IRS successfully made such an assertion, we would be required to pay a 100% penalty tax on the redetermined rent, redetermined deductions or excess interest, as applicable.

Asset Tests

At the close of each calendar quarter, we must satisfy the following tests relating to the nature and diversification of our assets. For purposes of the asset tests, a REIT is not treated as owning the stock of a qualified REIT subsidiary or an equity interest in any entity treated as a partnership otherwise disregarded for U.S. federal income tax purposes. Instead, a REIT is treated as owning its proportionate share of the assets held by such entity.

- At least 75% of the value of our total assets must be represented by some combination of "real estate assets," cash, cash items, and U.S. government securities. For purposes of this test, real estate assets include interests in real property, such as land and buildings, leasehold interests in real property, stock of other corporations that qualify as REITs and debt instruments issued by publicly offered REITs, some types of mortgage-backed securities, mortgage loans, personal property leased in connection with real property to the extent that rents attributable to such personal property are treated as "rents from real property", and stock or debt instruments held for less than one year purchased with an offering of our shares or long term debt. Assets that do not qualify for purposes of the 75% asset test are subject to the additional asset tests described below.

- Not more than 25% of our total assets may be represented by securities other than those described in the first bullet above.

- Except for securities described in the first bullet above and the last bullet below and securities in qualified REIT subsidiaries and taxable REIT subsidiaries, the value of any one issuer's securities owned by us may not exceed 5% of the value of our total assets.

- Except for securities described in the first bullet above and the last bullet below and securities in qualified REIT subsidiaries and taxable REIT subsidiaries, we may not own more than 10% of any one issuer's outstanding voting securities.

- Except for securities described in the first bullet above and the last bullet below and securities in qualified REIT subsidiaries and taxable REIT subsidiaries, and certain types of indebtedness that are not treated as securities for purposes of this test, as discussed below, we may not own more than 10% of the total value of the outstanding securities of any one issuer.

- Not more than 20% of the value of our total assets may be represented by the securities of one or more taxable REIT subsidiaries.

- Not more than 25% of our total assets may be represented by debt instruments issued by publicly offered REITs that are "nonqualified" debt instruments (e.g., not secured by real property or interests in real property).

The 10% value test does not apply to certain "straight debt" and other excluded securities, as described in the Code, including (1) loans to individuals or estates; (2) obligations to pay rent from real property; (3) rental agreements described in Section 467 of the Code; (4) any security issued by other REITs; (5) certain securities issued by a state, the District of Columbia, a foreign government, or a political subdivision of any of the foregoing, or the Commonwealth of Puerto Rico; and (6) any other arrangement as determined by the IRS. In addition, (1) a REIT's interest as a partner in a partnership is not considered a security for purposes of the 10% value test; (2) any debt instrument issued by a partnership (other than straight debt or other excluded security) will not be considered a security issued by the partnership if at least 75% of the partnership's gross income is derived from sources that would qualify for the 75% REIT gross income test; and (3) any debt instrument issued by a partnership (other than straight debt or other excluded security) will not be considered a security issued by a partnership to the extent of the REIT's interest as a partner in the partnership.

For purposes of the 10% value test, debt will meet the "straight debt" safe harbor if (1) neither us, nor any of our controlled taxable REIT subsidiaries (i.e., taxable REIT subsidiaries more than 50% of the vote or value of the outstanding stock of which is directly or indirectly owned by us), own any securities not described in the preceding paragraph that have an aggregate value greater than 1% of the issuer's outstanding securities, as calculated under the Code, (2) the debt is a written unconditional promise to pay on demand or on a specified date a sum certain in money, (3) the debt is not convertible, directly or indirectly, into stock, and (4) the interest rate and the interest payment dates of the debt are not contingent on the profits, the borrower's discretion or similar factors. However, contingencies regarding time of payment and interest are permissible for purposes of qualifying as a straight debt security if either (1) such contingency does not have the effect of changing the effective yield of maturity, as determined under the Code, other than a change in the annual yield to maturity that does not exceed the greater of (i) 5% of the annual yield to maturity or (ii) 0.25%, or (2) neither the aggregate issue price nor the aggregate face amount of the issuer's debt instruments held by the REIT exceeds $1,000,000 and not more than 12 months of unaccrued interest can be required to be prepaid thereunder. In addition, debt will not be disqualified from being treated as "straight debt" solely because the time or amount of payment is subject to a contingency upon a default or the exercise of a prepayment right by the issuer of the debt, provided that such contingency is consistent with customary commercial practice.

We own one subsidiary that has elected to be treated as a taxable REIT subsidiary for U.S. federal income tax purposes. Our taxable REIT subsidiary is taxable as a non-REIT C corporation and has elected, together with us, to be treated as our taxable REIT subsidiary. So long as our taxable REIT subsidiary qualifies as such, we will not be subject to the 5% asset test, 10% voting securities limitation or 10% value limitation with respect to our ownership interest in the taxable REIT subsidiary. We may acquire securities in other taxable REIT subsidiaries in the future. We believe that the aggregate value of our interests in our taxable REIT subsidiary does not exceed, and believe that in the future it will not exceed, 20% of the aggregate value of our gross assets. To the extent that we own an interest in an issuer that does not qualify as a REIT, a qualified REIT subsidiary, or a taxable REIT subsidiary, we believe that our pro rata share of the value of the securities, including debt, of any such issuer does not exceed 5% of the total value of our assets. Moreover, with respect to each issuer in which we own an interest that does not qualify as a qualified REIT subsidiary or a taxable REIT subsidiary, we believe that our ownership of the securities of any such issuer complies with the 10% voting securities limitation and 10% value limitation.

No independent appraisals have been obtained to support these conclusions. In this regard, however, we cannot provide any assurance that the IRS will agree with our determinations.

Failure to Satisfy the Asset Tests. The asset tests must be satisfied not only on the last day of the calendar quarter in which we, directly or through pass-through subsidiaries, acquire securities in the applicable issuer, but also on the last day of the calendar quarter in which we increase our ownership of securities of such issuer, including as a result of increasing our interest in pass-through subsidiaries. After initially meeting the asset tests at the close of any quarter, we will not lose our status as a REIT for failure to satisfy the asset tests at the end of a later quarter solely by reason of changes in the relative values of our assets (including a discrepancy caused solely by the change in the foreign currency exchange rate used to value a foreign asset). If failure to satisfy the asset tests results from an acquisition of securities or other property during a quarter, we can cure this failure by disposing of sufficient non-qualifying assets within 30 days after the close of that quarter. We intend to continue to maintain adequate records of the value of our assets to ensure compliance with the asset tests and to take any available action within 30 days after the close of any quarter as may be required to cure any noncompliance with the asset tests. Although we plan to take steps to ensure that we satisfy such tests for any quarter with respect to which testing is to occur, there can be no assurance that such steps will always be successful. If we fail to timely cure any noncompliance with the asset tests, we will cease to qualify as a REIT, unless we satisfy certain relief provisions.

The failure to satisfy the 5% asset test, or the 10% vote or value asset tests can be remedied even after the 30-day cure period under certain circumstances. Specifically, if we fail these asset tests at the end of any quarter and such failure is not cured within 30 days thereafter, we may dispose of sufficient assets (generally within six months after the last day of the quarter in which our identification of the failure to satisfy these asset tests occurred) to cure such a violation that does not exceed the lesser of 1% of our assets at the end of the relevant quarter or $10,000,000. If we fail any of the other asset tests or our failure of the 5% and 10% asset tests is in excess of the de minimis amount described above, as long as such failure was due to reasonable cause and not willful neglect, we are permitted to avoid disqualification as a REIT, after the 30-day cure period, by taking steps including the disposing of sufficient assets to meet the asset test (generally within six months after the last day of the quarter in which our identification of the failure to satisfy the REIT asset test occurred), paying a tax equal to the greater of $50,000 or the highest corporate income tax rate of the net income generated by the non-qualifying assets during the period in which we failed to satisfy the asset test, and filing in accordance with applicable Treasury Regulations a schedule with the IRS that describes the assets that caused us to fail to satisfy the asset test(s). We intend to take advantage of any and all relief provisions that are available to us to cure any violation of the asset tests applicable to REITs. In certain circumstances, utilization of such provisions could result in us being required to pay an excise or penalty tax, which could be significant in amount.

Annual Distribution Requirements

To qualify as a REIT, we are required to distribute dividends, other than capital gain dividends, to our shareholders each year in an amount at least equal to:

- the sum of: (1) 90% of our "REIT taxable income," computed without regard to the dividends paid deduction and our net capital gain; and (2) 90% of our after tax net income, if any, from foreclosure property; minus

- the excess of the sum of specified items of non-cash income over 5% of our REIT taxable income, computed without regard to our net capital gain and the deduction for dividends paid.

For purposes of this test, non-cash income means income attributable to leveled stepped rents, original issue discount included in our taxable income without the receipt of a corresponding payment, cancellation of indebtedness or income attributable to a like-kind exchange that is later determined to be taxable.

We generally must make dividend distributions in the taxable year to which they relate. Dividend distributions may be made in the following year in two circumstances. First, if we declare a dividend in October, November, or December of any year with a record date in one of these months and pay the dividend on or before January 31 of the following year. Such distributions are treated as both paid by us and received by each shareholder on December 31 of the year in which they are declared. Second, distributions may be made in the following year if they are declared before we timely file our tax return for the year and if made with or before the first regular dividend payment after such declaration. These distributions are taxable to our shareholders in the year in which paid, even though the distributions relate to our prior taxable year for purposes of the 90% distribution requirement.

To the extent that we do not distribute all of our net capital gain or distribute at least 90%, but less than 100%, of our "REIT taxable income," as adjusted, we will be required to pay tax on that amount at regular corporate tax rates. We intend to make timely distributions sufficient to satisfy these annual distribution requirements. In certain circumstances we may elect to retain, rather than distribute, our net long-term capital gains and pay tax on such gains. In this case, we could elect for our shareholders to include their proportionate share of such undistributed long-term capital gains in income, and to receive a corresponding credit for their share of the tax that we paid. Our shareholders would then increase their adjusted basis of their stock by the difference between (1) the amounts of capital gain dividends that we designated and that they included in their taxable income, minus (2) the tax that we paid on their behalf with respect to that income.

To the extent that in the future we may have available net operating losses carried forward from prior tax years, such losses may reduce the amount of distributions that we must make in order to comply with the REIT distribution requirements. Our deduction for any net operating loss carryforwards arising from losses we sustain in taxable years beginning after December 31, 2017 is limited to 80% of our REIT taxable income (determined without regard to the deduction for dividends paid), and any unused portion of such losses may be carried forward indefinitely.

If we fail to distribute during each calendar year at least the sum of (a) 85% of our REIT ordinary income for such year, (b) 95% of our REIT capital gain net income for such year, and (c) any undistributed taxable income from prior periods, we would be subject to a non-deductible 4% excise tax on the excess of such required distribution over the sum of (x) the amounts actually distributed, and (y) the amounts of income we retained and on which we paid corporate income tax.

We expect that our REIT taxable income (determined before our deduction for dividends paid) will be less than our cash flow because of depreciation and other non-cash charges included in computing REIT taxable income. Accordingly, we anticipate that we will generally have sufficient cash or liquid assets to enable us to satisfy the distribution requirements described above. However, from time to time, we may not have sufficient cash or other liquid assets to meet these distribution requirements due to timing differences between the actual receipt of income and actual payment of deductible expenses, and the inclusion of income and deduction of expenses in arriving at our taxable income.

The Code limits the deductibility of net interest expense paid or accrued on debt properly allocable to a trade or business to 30% of "adjusted taxable income," subject to certain exceptions. Any deduction in excess of the limitation is carried forward and may be used in a subsequent year, subject to the 30% limitation. Adjusted taxable income is determined without regard to certain deductions, including those for net interest expense and net operating loss. However, for the 2021 taxable year, we made a timely election (which is irrevocable), such that the 30% limitation does not apply. This election is available for a trade or business involving real property development, redevelopment, construction, reconstruction, rental, operation, acquisition, conversion, disposition, management, leasing or brokerage, within the meaning of Section 469(c)(7)(C) of the Code. As a result of this election, depreciable real property (including certain improvements) held by the relevant trade or business must be depreciated under the alternative depreciation system under the Code, which is generally less favorable than the generally applicable system of depreciation under the Code. If it was subsequently determined that this election was not in fact available with respect to all or certain of our business activities, this interest deduction limitation could result in us having more REIT taxable income and thus increase the amount of distributions we must make to comply with the REIT requirements and avoid incurring corporate level tax. Similarly, the limitation could cause our taxable REIT subsidiary (or any taxable REIT subsidiary we have in the future) to have greater taxable income and thus potentially greater corporate tax liability.

Furthermore, under Section 451 of the Code, subject to certain exceptions, we must accrue income for U.S. federal income tax purposes no later than when such income is taken into account as revenue in our financial statements, which could create additional differences between REIT taxable income and the receipt of cash attributable to such income. In addition, Section 162(m) of the Code places a per-employee limit of $1 million on the amount of compensation that a publicly held corporation may deduct in any one year with respect to its chief executive officer and certain other highly compensated executive officers. If these timing differences occur, we may need to arrange for short-term, or possibly long-term, borrowings or need to pay dividends in the form of taxable stock dividends in order to meet the distribution requirements.

We may be able to rectify a failure to meet the distribution requirement for a year by paying "deficiency dividends" to our shareholders in a later year, which may be included in our deduction for dividends paid for the earlier year. Thus, we may be able to avoid being taxed on amounts distributed as deficiency dividends. However, we will be required to pay interest to the IRS based upon the amount of any deduction claimed for deficiency dividends.

Record-Keeping Requirements

We are required to comply with applicable record-keeping requirements. Failure to comply could result in monetary fines.

Failure to Qualify as a REIT

If we fail to satisfy one or more requirements for REIT qualification other than gross income and asset tests that have the specific savings clauses, we can avoid termination of our REIT qualification by paying a penalty of $50,000 for each such failure, provided that our noncompliance was due to reasonable cause and not willful neglect.

If we fail to qualify for taxation as a REIT in any taxable year and the relief provisions do not apply, we will be subject to tax on our taxable income at regular corporate rates. If we fail to qualify for taxation as a REIT, we will not be required to make any distributions to shareholders, and any distributions that are made to shareholders will not be deductible by us. As a result, our failure to qualify for taxation as a REIT would significantly reduce the cash available for distributions by us to our shareholders. In addition, if we fail to qualify for taxation as a REIT, all distributions to shareholders, to the extent of our current and accumulated earnings and profits, will be taxable as regular corporate dividends. For taxable years before January 1, 2026, generally, U.S. shareholders that are individuals, trusts or estates may deduct 20% of the aggregate amount of ordinary dividends distributed by us, subject to certain limitations. Alternatively, such dividends paid to U.S. shareholders that are individuals, trusts and estates may be taxable at the preferential income tax rates (i.e., the 20% maximum U.S. federal rate (excluding the 3.8% tax on "net investment income")) for qualified dividends. In addition, subject to the limitations of the Code, corporate distributees may be eligible for the dividends-received deduction.

Unless entitled to relief under specific statutory provisions, we also will be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost. In addition, if we merge with another REIT and we are the "successor" to the other REIT, the other REIT's disqualification from taxation as a REIT would prevent us from being taxed as a REIT for the four taxable years following the year during which the other REIT's qualification was lost. There can be no assurance that we would be entitled to any statutory relief. We intend to take advantage of any and all relief provisions that are available to us to cure any violation of the requirements applicable to REITs.

Taxation of U.S. Shareholders

Taxation of Taxable U.S. Shareholders

This section summarizes the taxation of U.S. shareholders that are not tax-exempt organizations. For these purposes, the term "U.S. shareholder" is a beneficial owner of our shares that is, for U.S. federal income tax purposes:

- a citizen or resident of the United States;
- a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or of a political subdivision thereof (including the District of Columbia);
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- any trust if a U.S. court is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of the trust.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds our shares, the U.S. federal income tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. A partner of a partnership holding our shares should consult its own tax advisor regarding the U.S. federal income tax consequences to the partner of the acquisition, ownership and disposition of our shares by the partnership.

Distributions Generally. So long as we qualify as a REIT, distributions out of our current or accumulated earnings and profits that are not designated as capital gains dividends or "qualified dividend income" will be taxable to our taxable U.S. shareholders as ordinary income and will not be eligible for the dividends-received deduction in the case of U.S. shareholders that are corporations. However, for tax years prior to 2026, generally U.S. shareholders that are individuals, trusts or estates may deduct 20% of the aggregate amount of ordinary dividends distributed by us, subject to certain limitations. For purposes of determining whether distributions to holders of shares are out of current or accumulated earnings and profits, our earnings and profits will be allocated first to any outstanding preferred shares and then to our outstanding common shares. Dividends received from REITs are generally not eligible to be taxed at the preferential qualified dividend income rates currently available to individual U.S. shareholders who receive dividends from taxable subchapter "C" corporations.

Capital Gain Dividends. We may elect to designate distributions of our net capital gain as "capital gain dividends." Distributions that we properly designate as "capital gain dividends" will be taxable to our taxable U.S. shareholders as long-term capital gains without regard to the period for which the U.S. shareholder that receives such distribution has held its shares. Designations made by us will only be effective to the extent that they comply with Revenue Ruling 89-81, which requires that distributions made to different classes of shares be composed proportionately of dividends of a particular type. If we designate any portion of a dividend as a capital gain dividend, a U.S. shareholder will receive an IRS Form 1099-DIV indicating the amount that will be taxable to the shareholder as capital gain. Corporate shareholders, however, may be required to treat up to

20% of some capital gain dividends as ordinary income. Recipients of capital gain dividends from us that are taxed at corporate income tax rates will be taxed at the normal corporate income tax rates on these dividends.

We may elect to retain and pay taxes on some or all of our net long-term capital gains, in which case U.S. shareholders will be treated as having received, solely for U.S. federal income tax purposes, our undistributed capital gains as well as a corresponding credit or refund, as the case may be, for taxes that we paid on such undistributed capital gains. A U.S. shareholder will increase the basis in its shares by the difference between the amount of capital gain included in its income and the amount of tax it is deemed to have paid. A U.S. shareholder that is a corporation will appropriately adjust its earnings and profits for the retained capital gain in accordance with Treasury Regulations to be prescribed by the IRS. Our earnings and profits will be adjusted appropriately.

We will classify portions of any designated capital gain dividend or undistributed capital gain as either:

- a long-term capital gain distribution, which would be taxable to non-corporate U.S. shareholders at a maximum rate of 20% (excluding the 3.8% tax on "net investment income"), and taxable to U.S. shareholders that are corporations at a maximum rate of 21%; or

- an "unrecaptured Section 1250 gain" distribution, which would be taxable to non-corporate U.S. shareholders at a maximum rate of 25%, to the extent of previously claimed depreciation deductions.

Distributions from us in excess of our current and accumulated earnings and profits will not be taxable to a U.S. shareholder to the extent that they do not exceed the adjusted basis of the U.S. shareholder's shares in respect of which the distributions were made. Rather, the distribution will reduce the adjusted basis of these shares. To the extent that such distributions exceed the adjusted basis of a U.S. shareholder's shares of our shares, the U.S. shareholder generally must include such distributions in income as long-term capital gain, or short-term capital gain if the shares have been held for one year or less. In addition, any dividend that we declare in October, November or December of any year and that is payable to a shareholder of record on a specified date in any such month will be treated as both paid by us and received by the shareholder on December 31 of such year, provided that we actually pay the dividend before the end of January of the following calendar year.

To the extent that we have available net operating losses and capital losses carried forward from prior tax years, such losses may reduce the amount of distributions that we must make in order to comply with the REIT distribution requirements. See "—Taxation of the Company as a REIT" and "—Requirements for Qualification as a REIT—Annual Distribution Requirements." Such losses, however, are not passed through to U.S. shareholders and do not offset income of U.S. shareholders from other sources, nor would such losses affect the character of any distributions that we make, which are generally subject to tax in the hands of U.S. shareholders to the extent that we have current or accumulated earnings and profits.

The maximum amount of dividends that we may designate as capital gain and as "qualified dividend income" (discussed below) with respect to any taxable year may not exceed the dividends actually paid by us with respect to such year, including dividends paid by us in the succeeding tax year that relate back to the prior tax year for purposes of determining our dividends paid deduction.

Qualified Dividend Income. We may elect to designate a portion of our distributions paid to shareholders as "qualified dividend income." A portion of a distribution that is properly designated as qualified dividend income is taxable to non-corporate U.S. shareholders as capital gain, provided that the shareholder has held the shares with respect to which the distribution is made for more than 60 days during the 121-day period beginning on the date that is 60 days before the date on which such shares become ex-dividend with respect to the relevant distribution. The maximum amount of our distributions eligible to be designated as qualified dividend income for a taxable year is equal to the sum of:

- the qualified dividend income received by us during such taxable year from non-REIT corporations (including our taxable REIT subsidiaries);

- the excess of any "undistributed" REIT taxable income recognized during the immediately preceding year over the U.S. federal income tax paid by us with respect to such undistributed REIT taxable income; and

- the excess of (i) any income recognized during the immediately preceding year attributable to the sale of a built-in-gain asset that was acquired in a carry-over basis transaction from a "C" corporation with respect to which the Company is required to pay U.S. federal income tax, over (ii) the U.S. federal income tax paid by us with respect to such built-in gain.

Generally, dividends that we receive will be treated as qualified dividend income for purposes of the first bullet above if (A) the dividends are received from (i) a U.S. corporation (other than a REIT or a RIC), (ii) any of our taxable REIT subsidiaries, or (iii) a "qualifying foreign corporation," and (B) specified holding period requirements and other requirements are met. A foreign corporation (other than a "foreign personal holding company," a "foreign investment company," or "passive foreign investment company") will be a qualifying foreign corporation if it is incorporated in a possession of the United States, the corporation is eligible for benefits of an income tax treaty with the United States that the Secretary of Treasury determines is satisfactory, or the stock of the foreign corporation on which the dividend is paid is readily tradable on an established securities market in the United States. We generally expect that an insignificant portion, if any, of our distributions from us will consist of qualified dividend income. If we designate any portion of a dividend as qualified dividend income, a U.S. shareholder will receive an IRS Form 1099-DIV indicating the amount that will be taxable to the shareholder as qualified dividend income.

Passive Activity Losses and Investment Interest Limitations. Distributions we make and gain arising from the sale or exchange by a U.S. shareholder of our shares will not be treated as passive activity income. As a result, U.S. shareholders generally will not be able to apply any "passive losses" against this income or gain. Distributions we make, to the extent they do not constitute a return of capital, generally will be treated as investment income for purposes of computing the investment interest limitation. A U.S. shareholder may elect, depending on its particular situation, to treat capital gain dividends, capital gains from the disposition of shares and income designated as qualified dividend income as investment income for purposes of the investment interest limitation, in which case the applicable capital gains will be taxed at ordinary income rates. We will notify shareholders regarding the portions of our distributions for each year that constitute ordinary income, return of capital and qualified dividend income.

Distributions to Holders of Depositary Shares. Owners of depositary shares will be treated for U.S. federal income tax purposes as if they were owners of the underlying preferred shares represented by such depositary shares. Accordingly, such owners will be entitled to take into account, for U.S. federal income tax purposes, income and deductions to which they would be entitled if they were direct holders of underlying preferred shares. In addition, (i) no gain or loss will be recognized for U.S. federal income tax purposes upon the withdrawal of certificates evidencing the underlying preferred shares in exchange for depositary receipts, (ii) the tax basis of each share of the underlying preferred shares to an exchanging owner of depositary shares will, upon such exchange, be the same as the aggregate tax basis of the depositary shares exchanged therefor, and (iii) the holding period for the underlying preferred shares in the hands of an exchanging owner of depositary shares will include the period during which such person owned such depositary shares.

Dispositions of Our Shares. If a U.S. shareholder sells, redeems or otherwise disposes of its shares in a taxable transaction, it will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount of cash and the fair market value of any property received on the sale or other disposition and the holder's adjusted basis in the shares for tax purposes. In general, a U.S. shareholder's adjusted basis will equal the U.S. shareholder's acquisition cost, increased by the excess for net capital gains deemed distributed to the U.S. shareholder (discussed above) less tax deemed paid on it and reduced by returns on capital.

In general, capital gains recognized by individuals and other non-corporate U.S. shareholders upon the sale or disposition of our shares will be subject to a maximum U.S. federal income tax rate of 20% (excluding the 3.8% tax on "net investment income"), if our shares are held for more than one year and will be taxed at ordinary income rates of up to 37% if the stock is held for one year or less. Gains recognized by U.S. shareholders that are corporations are subject to U.S. federal income tax at a maximum rate of 21%, whether or not such gains are classified as long-term capital gains. The IRS has the authority to prescribe, but has not yet prescribed, Treasury Regulations that would apply a capital gain tax rate of 25% (which is higher than the long-term capital gain tax rates for non-corporate U.S. shareholders) to a portion of capital gain realized by a non-corporate U.S. shareholder on the sale of the Company's shares that would correspond to the REIT's "unrecaptured Section 1250 gain." U.S. shareholders should consult with their own tax advisors with respect to their capital gain tax liability.

Capital losses recognized by a U.S. shareholder upon the disposition of our shares that were held for more than one year at the time of disposition will be considered long-term capital losses and are generally available only to offset capital gain income of the shareholder but not ordinary income (except in the case of individuals, who may offset up to $3,000 of ordinary income each year). In addition, any loss upon a sale or exchange of our shares by a U.S. shareholder who has held the shares for six months or less, after applying holding period rules, will be treated as a long-term capital loss to the extent of distributions that we make that are required to be treated by the U.S. shareholder as long-term capital gain.

If a shareholder recognizes a loss upon a subsequent disposition of our shares in an amount that exceeds a prescribed threshold, it is possible that the provisions of Treasury Regulations involving "reportable transactions" could apply, with a resulting requirement to separately disclose the loss-generating transaction to the IRS. These regulations, though directed towards "tax shelters," are broadly written, and apply to transactions that would not typically be considered tax shelters. The Code imposes significant penalties for failure to comply with these requirements. U.S. shareholders should consult their tax advisors concerning any possible disclosure obligation with respect to the receipt or disposition of our shares, or transactions that we might undertake directly or indirectly.

Redemption of Preferred Shares and Depositary Shares. Whenever we redeem any preferred shares held by the depositary, the depositary will redeem as of the same redemption date the number of depositary shares representing the preferred shares so redeemed. The treatment accorded to any redemption by us for cash (as distinguished from a sale, exchange or other disposition) of our preferred shares to a holder of such preferred shares can only be determined on the basis of the particular facts as to each holder at the time of redemption. In general, a holder of our preferred shares will recognize capital gain or loss measured by the difference between the amount received by the holder of such shares upon the redemption and such holder's adjusted tax basis in the preferred shares redeemed (provided the preferred shares are held as a capital asset) if such redemption (i) is ''not essentially equivalent to a dividend'' with respect to the holder of the preferred shares under Section 302(b)(1) of the Code, (ii) is a "substantially disproportionate" redemption with respect to the shareholder under Section 302(b)(2) of the Code, or (iii) results in a ''complete termination'' of the holder's interest in all classes of our shares under Section 302(b)(3) of the Code. In applying these tests, there must be taken into account not only any series or class of the preferred shares being redeemed, but also such holder's ownership of other classes of our shares and any options (including stock purchase rights) to acquire any of the foregoing. The holder of our preferred shares also must take into account any such securities (including options) which are considered to be owned by such holder by reason of the constructive ownership rules set forth in Sections 318 and 302(c) of the Code.

If the holder of preferred shares owns (actually or constructively) none of our voting shares, or owns an insubstantial amount of our voting shares, based upon current law, it is probable that the redemption of preferred shares from such a holder would be considered to be ''not essentially equivalent to a dividend.'' However, whether a distribution is ''not essentially equivalent to a dividend'' depends on all of the facts and circumstances, and a holder of our preferred shares intending to rely on any of these tests at the time of redemption should consult its tax advisor to determine their application to its particular situation.

Satisfaction of the "substantially disproportionate" and "complete termination" exceptions is dependent upon compliance with the respective objective tests set forth in Section 302(b)(2) and Section 302(b)(3) of the Code. A distribution to a holder of preferred shares will be "substantially disproportionate" if the percentage of our outstanding voting shares actually and constructively owned by the shareholder immediately following the redemption of preferred shares (treating preferred shares redeemed as not outstanding) is less than 80% of the percentage of our outstanding voting shares actually and constructively owned by the shareholder immediately before the redemption, and immediately following the redemption the shareholder actually and constructively owns less than 50% of the total combined voting power of the Company. Because the Company's preferred shares are nonvoting shares, a shareholder would have to reduce such holder's holdings (if any) in our classes of voting shares to satisfy this test.

If the redemption does not meet any of the tests under Section 302 of the Code, then the redemption proceeds received from our preferred shares will be treated as a distribution on our shares as described under ''—Taxation of U.S. Shareholders—Taxation of Taxable U.S. Shareholders-Distributions Generally,'' and ''—Taxation of Non-U.S. Shareholders-Distributions Generally.'' If the redemption of a holder's preferred shares is taxed as a dividend, the adjusted basis of such holder's redeemed preferred shares will be transferred to any other shares held by the holder. If the holder owns no other shares, under certain circumstances, such basis may be transferred to a related person, or it may be lost entirely.

With respect to a redemption of our preferred shares that is treated as a distribution with respect to our shares, which is not otherwise taxable as a dividend, the IRS had proposed Treasury Regulations that would require any basis reduction associated with such a redemption to be applied on a share-by-share basis which could result in taxable gain with respect to some shares, even though the holder's aggregate basis for the shares would be sufficient to absorb the entire amount of the redemption distribution (in excess of any amount of such distribution treated as a dividend). Additionally, these proposed Treasury Regulations did not permit the transfer of basis in the redeemed shares of the preferred shares to the remaining shares held (directly or indirectly) by the redeemed holder. Instead, the unrecovered basis in our preferred shares would be treated as a deferred loss to be recognized when certain conditions are satisfied. These proposed Treasury Regulations have been withdrawn and, although the IRS has reaffirmed its support for a share-by-share basis recovery approach, there is no indication as to whether regulations or other guidance on this issue will be promulgated in the future.

Net Investment Income Tax. In certain circumstances, certain U.S. shareholders that are individuals, estates or trusts are subject to a 3.8% tax on "net investment income," which includes, among other things, dividends on and gains from the sale or other disposition of REIT shares. U.S. shareholders should consult their own tax advisors regarding this legislation.

Expansion of Medicare Tax. The temporary 20% deduction allowed by Section 199A of the Code with respect to ordinary REIT dividends received by non-corporate taxpayers is allowed only for purposes of Chapter 1 of the Code and thus is apparently not allowed as a deduction allocable to such dividends for purposes of determining the amount of net investment income, described above, subject to the 3.8% Medicare tax, which is imposed under Chapter 2A of the Code. Prospective investors should consult their own tax advisors regarding this legislation.

Taxation of Tax-Exempt Shareholders

U.S. tax-exempt entities, including qualified employee pension and profit sharing trusts and individual retirement accounts, generally are exempt from U.S. federal income taxation. Such entities, however, may be subject to taxation on their unrelated business taxable income, or UBTI. While some investments in real estate may generate UBTI, the IRS has ruled that dividend distributions from a REIT to a tax-exempt entity generally do not constitute UBTI. Based on that ruling, and provided that (1) a tax-exempt shareholder has not held our shares as "debt financed property" within the meaning of the Code (i.e., where the acquisition or holding of our shares is financed through a borrowing by the U.S. tax-exempt shareholder), (2) our shares are not otherwise used in an unrelated trade or business of a U.S. tax-exempt shareholder, and (3) we do not hold an asset that gives rise to "excess inclusion income," distributions that we make and income from the sale of our shares generally should not give rise to UBTI to a U.S. tax-exempt shareholder.

Tax-exempt shareholders that are social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts, or qualified group legal services plans exempt from U.S. federal income taxation under Sections 501(c)(7), (c)(9) or (c)(17) of the Code, respectively, or single parent title-holding corporations exempt under Section 501(c)(2) and whose income is payable to any of the aforementioned tax-exempt organizations, are subject to different UBTI rules, which generally require such shareholders to characterize distributions from us as UBTI unless the organization is able to properly claim a deduction for amounts set aside or placed in reserve for certain purposes so as to offset the income generated by its investment in our shares. These shareholders should consult with their tax advisors concerning these set aside and reserve requirements.

In certain circumstances, a pension trust (1) that is described in Section 401(a) of the Code, (2) is tax exempt under Section 501(a) of the Code, and (3) that owns more than 10% of the value of our shares could be required to treat a percentage of the dividends as UBTI, if we are a "pension-held REIT." We will not be a pension-held REIT unless:

- either (1) one pension trust owns more than 25% of the value of our stock, or (2) one or more pension trusts, each individually holding more than 10% of the value of our shares, collectively own more than 50% of the value of our shares; and

- we would not have qualified as a REIT but for the fact that Section 856(h)(3) of the Code provides that shares owned by such trusts shall be treated, for purposes of the requirement that not more than 50% of the value of the outstanding shares of a REIT is owned, directly or indirectly, by five or fewer "individuals" (as defined in the Code to include certain entities), as owned by the beneficiaries of such trusts.

The percentage of any REIT dividend from a "pension-held REIT" that is treated as UBTI is equal to the ratio of the UBTI earned by the REIT, treating the REIT as if it were a pension trust and therefore subject to tax on UBTI, to the total gross income of the REIT. An exception applies where the percentage is less than 5% for any year, in which case none of the dividends would be treated as UBTI. The provisions requiring pension trusts to treat a portion of REIT distributions as UBTI will not apply if the REIT is able to satisfy the "not closely held requirement" without relying upon the "look-through" exception with respect to pension trusts. As a result of certain limitations on the transfer and ownership of our common and preferred shares contained in our declaration of trust, we do not expect to be classified as a "pension-held REIT," and accordingly, the tax treatment described above with respect to pension-held REITs should be inapplicable to our tax-exempt shareholders.

Taxation of Non-U.S. Shareholders

The following discussion addresses the rules governing U.S. federal income taxation of non-U.S. shareholders. For purposes of this summary, "non-U.S. shareholder" is a beneficial owner of our shares that is not a U.S. shareholder (as defined above under "—Taxation of U.S. Shareholders—Taxation of Taxable U.S. Shareholders"). These rules are complex, and no attempt is made herein to provide more than a brief summary of such rules. Accordingly, the discussion does not address all aspects of U.S. federal income taxation and does not address state local or foreign tax consequences that may be relevant to a non-U.S. shareholder in light of its particular circumstances. Prospective non-U.S. shareholders are urged to consult their tax advisors to determine the impact of U.S. federal, state, local and foreign income tax laws on their ownership of our common shares or preferred shares, including any reporting requirements.

Distributions Generally. As described in the discussion below, distributions paid by us with respect to our common shares, our preferred shares and depositary shares will be treated for U.S. federal income tax purposes as either:

- ordinary income dividends;
- long-term capital gain; or
- return of capital distributions.

This discussion assumes that our shares will continue to be considered regularly traded on an established securities market for purposes of the Foreign Investment in Real Property Tax Act of 1980, or FIRPTA, provisions described below. If our shares are no longer regularly traded on an established securities market, the tax considerations described below would materially differ.

Ordinary Income Dividends. A distribution paid by us to a non-U.S. shareholder will be treated as an ordinary income dividend if the distribution is payable out of our earnings and profits and:

- not attributable to our net capital gain; or
- the distribution is attributable to our net capital gain from the sale of U.S. Real Property Interests ("USRPIs"), and the non-U.S. shareholder owns 10% or less of the value of our common shares at all times during the one-year period ending on the date of the distribution.

In general, non-U.S. shareholders will not be considered to be engaged in a U.S. trade or business solely as a result of their ownership of our shares. In cases where the dividend income from a non-U.S. shareholder's investment in our shares is, or is treated as, effectively connected with the non-U.S. shareholder's conduct of a U.S. trade or business, the non-U.S. shareholder generally will be subject to U.S. federal income tax at graduated rates, in the same manner as U.S. shareholders are taxed with respect to such dividends. Such income must generally be reported on a U.S. income tax return filed by or on behalf of the non-U.S. shareholder. The income may also be subject to the 30% branch profits tax in the case of a non-U.S. shareholder that is a corporation.

Generally, we will withhold and remit to the IRS 30% (or lower applicable treaty rate) of dividend distributions (including distributions that may later be determined to have been made in excess of current and accumulated earnings and profits) that could not be treated as capital gain distributions with respect to the non-U.S. shareholder (and that are not deemed to be capital gain dividends for purposes of the FIRPTA withholding rules described below) unless:

- a lower treaty rate applies and the non-U.S. shareholder files an IRS Form W-8BEN or Form W-8BEN-E, as applicable, evidencing eligibility for that reduced treaty rate with us; or
- the non-U.S. shareholder files an IRS Form W-8ECI with us claiming that the distribution is income effectively connected with the non-U.S. shareholder's trade or business; or
- the non-U.S. shareholder is a foreign sovereign or controlled entity of a foreign sovereign and also provides an IRS Form W-8EXP claiming an exemption from withholding under section 892 of the Code.

Return of Capital Distributions. Unless (A) our shares constitute a USRPI, as described in "—Dispositions of Our Shares" below, or (B) either (1) the non-U.S. shareholder's investment in our shares is effectively connected with a U.S. trade or business conducted by such non-U.S. shareholder (in which case the non-U.S. shareholder will be subject to the same treatment as U.S. shareholders with respect to such gain) or (2) the non-U.S. shareholder is a nonresident alien individual who was present in the United States for 183 days or more during the taxable year and has a "tax home" in the United States (in which case the non-U.S. shareholder will be subject to a 30% tax on the individual's net capital gain for the year), distributions that we make which are not dividends out of our earnings and profits will not be subject to U.S. federal income tax. If we cannot determine at the time a distribution is made whether or not the distribution will exceed current and accumulated earnings and profits, the distribution will be subject to withholding at the rate applicable to dividends. The non-U.S. shareholder may seek a refund from the IRS of any amounts withheld if it subsequently is determined that the distribution was, in fact, in excess of our current and accumulated earnings and profits. If our shares constitute a USRPI, as described below, distributions that we make in excess of the sum of (1) the non-U.S. shareholder's proportionate share of our earnings and profits, and (2) the non-U.S. shareholder's basis in its shares, will be taxed under FIRPTA at the rate of tax, including any applicable capital gains rates, that would apply to a U.S. shareholder of the same type (e.g., an individual or a corporation, as the case may be), and the collection of the tax will be enforced by a refundable withholding tax at a rate of 15% of the amount by which the distribution exceeds the non-U.S. shareholder's share of our earnings and profits.

Capital Gain Dividends. A distribution paid by us to a non-U.S. shareholder will be treated as long-term capital gain if the distribution is paid out of our current or accumulated earnings and profits and:

- the distribution is attributable to our net capital gain (other than from the sale of USRPIs) and we timely designate the distribution as a capital gain dividend; or

- the distribution is attributable to our net capital gain from the sale of USRPIs and the non-U.S. common shareholder owns more than 10% of the value of common shares at any point during the one-year period ending on the date on which the distribution is paid.

Long-term capital gain that a non-U.S. shareholder is deemed to receive from a capital gain dividend that is not attributable to the sale of USRPIs generally will not be subject to U.S. federal income tax in the hands of the non-U.S. shareholder unless:

- the non-U.S. shareholder's investment in our shares is effectively connected with a U.S. trade or business of the non-U.S. shareholder, in which case the non-U.S. shareholder will be subject to the same treatment as U.S. shareholders with respect to any gain, except that a non-U.S. shareholder that is a corporation also may be subject to the 30% (or lower applicable treaty rate) branch profits tax; or

- the non-U.S. shareholder is a nonresident alien individual who is present in the United States for 183 days or more during the taxable year and has a "tax home" in the United States in which case the nonresident alien individual will be subject to a 30% tax on his capital gains.

Under FIRPTA, distributions that are attributable to net capital gain from the sale by us of USRPIs and paid to a non-U.S. shareholder that owns more than 10% of the value of our shares at any time during the one-year period ending on the date on which the distribution is paid will be subject to U.S. tax as income effectively connected with a U.S. trade or business. The FIRPTA tax will apply to these distributions whether or not the distribution is designated as a capital gain dividend, and, in the case of a non-U.S. shareholder that is a corporation, such distributions also may be subject to the 30% (or lower applicable treaty rate) branch profits tax.

Any distribution paid by us that is treated as a capital gain dividend or that could be treated as a capital gain dividend with respect to a particular non-U.S. shareholder will be subject to special withholding rules under FIRPTA. We will withhold and remit to the IRS 21% (or, to the extent provided in Treasury Regulations, 20%) of any distribution that could be treated as a capital gain dividend with respect to the non-U.S. shareholder, whether or not the distribution is attributable to the sale by us of USRPIs. The amount withheld is creditable against the non-U.S. shareholder's U.S. federal income tax liability or refundable when the non-U.S. shareholder properly and timely files a tax return with the IRS.

Certain non-U.S. pension funds that are "qualified foreign pension funds" as defined by Section 897(l) of the Code and certain non-U.S. publicly traded entities that are "qualified shareholders" as defined by Section 897(k) of the Code may be entitled to exceptions to the FIRPTA tax with respect to distributions we pay. Non-U.S. shareholders should consult with their tax advisors regarding the application of these exceptions.

Undistributed Capital Gain. Although the law is not entirely clear on the matter, it appears that amounts designated by us as undistributed capital gains in respect of our shares held by non-U.S. shareholders generally should be treated in the same manner as actual distributions by us of capital gain dividends. Under this approach, the non-U.S. shareholder would be able to offset as a credit against their U.S. federal income tax liability resulting therefrom their proportionate share of the tax paid by us on the undistributed capital gains treated as long-term capital gains to the non-U.S. shareholder, and generally receive from the IRS a refund to the extent their proportionate share of the tax paid by us were to exceed the non-U.S. shareholder's actual U.S. federal income tax liability on such long-term capital gain. If we were to designate any portion of our net capital gain as undistributed capital gain, a non-U.S. shareholder should consult its tax advisors regarding taxation of such undistributed capital gain.

Dispositions of Our Shares. Unless our shares constitute a USRPI, a sale of our shares by a non-U.S. shareholder generally will not be subject to U.S. federal income taxation under FIRPTA. Generally, subject to the discussion below regarding dispositions by "qualified shareholders" and "qualified foreign pension funds," with respect to any particular shareholder, our shares will constitute a USRPI only if each of the following three statements is true:

- 50% or more of our assets on any of certain testing dates during a prescribed testing period consist of interests in real property located within the United States, excluding for this purpose, interests in real property solely in a capacity as creditor;

- We are not a "domestically-controlled qualified investment entity." A domestically-controlled qualified investment entity includes a REIT, less than 50% of value of which is held directly or indirectly by non-U.S. shareholders at all times during a specified testing period. Although we believe that we are and will remain a domestically-controlled REIT, because our shares are publicly traded, we cannot guarantee that we are or will remain a domestically-controlled qualified investment entity; and

- Either (a) our shares are not "regularly traded," as defined by applicable Treasury Regulations, on an established securities market; or (b) our shares are "regularly traded" on an established securities market and the selling non-U.S. shareholder has held over 10% of our outstanding common shares any time during the five-year period ending on the date of the sale.

Certain non-U.S. pension funds that are "qualified foreign pension funds" as defined by Section 897(l) of the Code and certain non-U.S. publicly traded entities that are "qualified shareholders" as defined by Section 897(k) of the Code may be entitled to exceptions to the FIRPTA tax with respect to the sale of our shares. Non-U.S. shareholders should consult with their tax advisors regarding the application of these exceptions.

Specific wash sales rules applicable to sales of shares in a domestically-controlled qualified investment entity could result in gain recognition, taxable under FIRPTA, upon the sale of our shares even if we are a domestically-controlled qualified investment entity. These rules would apply if a non-U.S. shareholder (1) disposes of our shares within a 30-day period preceding the ex-dividend date of a distribution, any portion of which, but for the disposition, would have been taxable to such non-U.S. shareholder as gain from the sale or exchange of a USRPI, (2) acquires, or enters into a contract or option to acquire, other shares of our shares during the 61-day period that begins 30 days prior to such ex-dividend date, and (3) if our shares are "regularly traded" on an established securities market in the United States, such non-US stockholder has owned more than 10% of our outstanding shares at any time during the one-year period ending on the date of such distribution.

If gain on the sale of our shares were subject to taxation under FIRPTA, the non-U.S. shareholder would be required to file a U.S. federal income tax return and would be subject to the same treatment as a U.S. shareholder with respect to such gain, subject to the applicable alternative minimum tax and a special alternative minimum tax in the case of non-resident alien individuals, and, if our common shares were not "regularly traded" on an established securities market, the purchaser of the shares generally would be required to withhold 15% of the purchase price and remit such amount to the IRS.

Gain from the sale of our shares that would not otherwise be subject to FIRPTA will nonetheless be taxable in the United States to a non-U.S. shareholder as follows: (1) if the non-U.S. shareholder's investment in our shares is effectively connected with a U.S. trade or business conducted by such non-U.S. shareholder, the non-U.S. shareholder will be subject to the same treatment as a U.S. shareholder with respect to such gain, or (2) if the non-U.S. shareholder is a nonresident alien individual who was present in the U.S. for 183 days or more during the taxable year and has a "tax home" in the United States, the nonresident alien individual will be subject to a 30% tax on the individual's capital gain.

Taxation of Holders of Our Warrants and Rights

Warrants. Holders of our warrants will not generally recognize gain or loss upon the exercise of a warrant. A holder's basis in the preferred shares, depositary shares representing preferred shares or common shares, as the case may be, received upon the exercise of the warrant will be equal to the sum of the holder's adjusted tax basis in the warrant and the exercise price paid. A holder's holding period in the preferred shares, depositary shares representing preferred shares or common shares, as the case may be, received upon the exercise of the warrant will not include the period during which the warrant was held by the holder. Upon the expiration of a warrant, the holder will recognize a capital loss in an amount equal to the holder's adjusted tax basis in the warrant. Upon the sale or exchange of a warrant to a person other than us, a holder will recognize gain or loss in an amount equal to the difference between the amount realized on the sale or exchange and the holder's adjusted tax basis in the warrant. Such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the warrant was held for more than one year. Upon the sale of the warrant to us, the IRS may argue that the holder should recognize ordinary income on the sale. Prospective holders of our warrants should consult their own tax advisors as to the consequences of a sale of a warrant to us.

Rights. In the event of a rights offering, the tax consequences of the receipt, expiration, and exercise of the rights we issue will be addressed in detail in a prospectus supplement. Prospective holders of our rights should review the applicable prospectus supplement in connection with the ownership of any rights and consult their own tax advisors as to the consequences of investing in the rights.

Dividend Reinvestment and Share Purchase Plan

General

We offer shareholders and prospective shareholders the opportunity to participate in our Dividend Reinvestment and Share Purchase Plan, which is referred to herein as the "DRIP."

Although we do not currently offer any discount in connection with the DRIP, nor do we plan to offer such a discount at present, we reserve the right to offer in the future a discount on shares purchased, not to exceed 5%, with reinvested dividends or cash distributions and shares purchased through the optional cash investment feature. This discussion assumes that we do not offer a discount in connection with the DRIP. If we were to offer a discount in connection with the DRIP, the tax considerations described below would materially differ. In the event that we offer a discount in connection with the DRIP, shareholders are urged to consult with their tax advisors regarding the tax treatment to them of receiving a discount.

Amounts Treated as a Distribution

Generally, a DRIP participant will be treated as having received a distribution with respect to our shares for U.S. federal income tax purposes in an amount determined as described below.

- A shareholder who participates in the dividend reinvestment feature of the DRIP and whose dividends are reinvested in our shares purchased from us will be treated for U.S. federal income tax purposes as having received a distribution from us with respect to our shares equal to the fair market value of our shares credited to the shareholder's DRIP account on the date the dividends are reinvested. The amount of the distribution deemed received will be reported on the Form 1099-DIV received by the shareholder.

- A shareholder who participates in the dividend reinvestment feature of the DRIP and whose dividends are reinvested in our shares purchased in the open market, will be treated for U.S. federal income tax purposes as having received (and will receive a Form 1099-DIV reporting) a distribution from us with respect to its shares equal to the fair market value of our shares credited to the shareholder's DRIP account (plus any brokerage fees and any other expenses deducted from the amount of the distribution reinvested) on the date the dividends are reinvested.

- A shareholder who participates in the optional cash purchase through the DRIP (or a newly enrolled participant not currently our shareholder making their initial investment in our common shares through the DRIP's optional cash purchase feature) will not be treated as receiving a distribution from us.

We will pay the annual maintenance cost for each shareholder's DRIP account. Consistent with the conclusion reached by the IRS in a private letter ruling issued to another REIT, we intend to take the position that the administrative costs do not constitute a distribution which is either taxable to a shareholder or which would reduce the shareholder's basis in their common shares. However, because the private letter ruling was not issued to us, we have no legal right to rely on its conclusions. Thus, it is possible that the IRS might view the shareholder's share of the administrative costs as constituting a taxable distribution to them and/or a distribution which reduces the basis in their shares. For this and other reasons, we may in the future take a different position with respect to these costs.

In the situations described above, a shareholder will be treated as receiving a distribution from us even though no cash distribution is actually received. These distributions will be taxable in the same manner as all other distributions paid by us, as described above under "—Taxation of U.S. Shareholders—Taxation of Taxable U.S. Shareholders," "—Taxation of U.S. Shareholders—Taxation of Tax-Exempt Shareholders," or "—Taxation of Non-U.S. Shareholders," as applicable.

Basis and Holding Period in Shares Acquired Pursuant to the DRIP. The tax basis for our shares acquired by reinvesting cash distributions through the DRIP generally will equal the fair market value of our shares on the date of distribution (plus the amount of any brokerage fees paid by the shareholder). The holding period for our shares acquired by reinvesting cash distributions will begin on the day following the date of distribution.

The tax basis in our shares acquired through an optional cash investment generally will equal the cost paid by the participant in acquiring our shares, including any brokerage fees paid by the shareholder. The holding period for our shares purchased through the optional cash investment feature of the DRIP generally will begin on the day our shares are purchased for the participant's account.

Withdrawal of Shares from the DRIP. When a participant withdraws stock from the DRIP and receives whole shares, the participant will not realize any taxable income. However, if the participant receives cash for a fractional share, the participant will be required to recognize gain or loss with respect to that fractional share.

Effect of Withholding Requirements. Withholding requirements generally applicable to distributions from us will apply to all amounts treated as distributions pursuant to the DRIP. See "—Information Reporting and Backup Withholding Tax Applicable to Shareholders—U.S. Shareholders-Generally" and "—Information Reporting and Backup Withholding Tax Applicable to Shareholders—Non-U.S. Shareholders—Generally" for discussion of the withholding requirements that apply to other distributions that we pay. All withholding amounts will be withheld from distributions before the distributions are reinvested under the DRIP. Therefore, if a U.S. shareholder is subject to withholding, distributions which would otherwise be available for reinvestment under the DRIP will be reduced by the withholding amount.

Information Reporting and Backup Withholding Tax Applicable to Shareholders

U.S. Shareholders—Generally

In general, information-reporting requirements will apply to payments of distributions on our shares and payments of the proceeds of the sale of our shares to some U.S. shareholders, unless an exception applies. Further, the payer will be required to withhold backup withholding tax on such payments if:

(1) the payee fails to furnish a taxpayer identification number ("TIN") to the payer or to establish an exemption from backup withholding;

(2) the IRS notifies the payer that the TIN furnished by the payee is incorrect;

(3) there has been a notified payee under-reporting with respect to interest, dividends or original issue discount described in Section 3406(c) of the Code; or

(4) there has been a failure of the payee to certify under the penalty of perjury that the payee is not subject to backup withholding under the Code.

Some shareholders may be exempt from backup withholding. Any amounts withheld under the backup withholding rules from a payment to a shareholder will be allowed as a credit against the shareholder's U.S. federal income tax liability and may entitle the shareholder to a refund, provided that the required information is furnished to the IRS.

U.S. Shareholders—Withholding on Payments in Respect of Certain Foreign Accounts.

As described below, certain future payments made to "foreign financial institutions" and "non-financial foreign entities" may be subject to withholding at a rate of 30%. U.S. shareholders should consult their tax advisors regarding the effect, if any, of this withholding provision on their ownership and disposition of our common stock. See "—Non-U.S. Shareholders—Withholding on Payments to Certain Foreign Entities" below.

Non-U.S. Shareholders—Generally

Generally, information reporting will apply to payments or distributions on our shares, and backup withholding described above for a U.S. shareholder will apply, unless the payee certifies that it is not a U.S. person or otherwise establishes an exemption. The payment of the proceeds from the disposition of our shares to or through the U.S. office of a U.S. or foreign broker will be subject to information reporting and, possibly, backup withholding as described above for U.S. shareholders, or the withholding tax for non-U.S. shareholders, as applicable, unless the non-U.S. shareholder certifies as to its non-U.S. status or otherwise establishes an exemption, provided that the broker does not have actual knowledge that the shareholder is a U.S. person or that the conditions of any other exemption are not, in fact, satisfied. The proceeds of the disposition by a non-U.S. shareholder of our shares to or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, if the broker is a U.S. person, a controlled foreign corporation for U.S. federal income tax purposes, or a foreign person 50% or more of whose gross income from all sources for specified periods is from activities that are effectively connected with a U.S. trade or business, a foreign partnership 50% or more of whose interests are held by partners who are U.S. persons, or a foreign partnership that is engaged in the conduct of a trade or business in the United States, then information reporting generally will apply as though the payment was made through a U.S. office of a U.S. or foreign broker unless the broker has documentary evidence as to the non-U.S. shareholder's foreign status and has no actual knowledge to the contrary.

Applicable Treasury Regulations provide presumptions regarding the status of shareholders when payments to the shareholders cannot be reliably associated with appropriate documentation provided to the payor. If a non-U.S. shareholder fails to comply with the information reporting requirement, payments to such person may be subject to the full withholding tax even if such person might have been eligible for a reduced rate of withholding or no withholding under an applicable income tax treaty. Because the application of these Treasury Regulations varies depending on the non-U.S. shareholder's particular circumstances, non-U.S. shareholders are urged to consult their tax advisor regarding the information reporting requirements applicable to them.

Backup withholding is not an additional tax. Any amounts that we withhold under the backup withholding rules will be refunded or credited against the non-U.S. shareholder's U.S. federal income tax liability if certain required information is furnished to the IRS. Non-U.S. shareholders should consult their own tax advisors regarding application of backup withholding in their particular circumstances and the availability of and procedure for obtaining an exemption from backup withholding under current Treasury Regulations.

Non-U.S. Shareholders—Withholding on Payments to Certain Foreign Entities

The Foreign Account Tax Compliance Act ("FATCA") imposes a 30% withholding tax on certain types of payments made to "foreign financial institutions" and certain other non-U.S. entities unless certain due diligence, reporting, withholding, and certification obligations requirements are satisfied.

As a general matter, FATCA imposes a 30% withholding tax on dividends in respect of our shares if paid to a foreign entity unless either (i) the foreign entity is a "foreign financial institution" that undertakes certain due diligence, reporting, withholding, and certification obligations, or in the case of a foreign financial institution that is a resident in a jurisdiction that has entered into an intergovernmental agreement to implement FATCA, the entity complies with the diligence and reporting requirements of such agreement, (ii) the foreign entity is not a "foreign financial institution" and identifies certain of its U.S. investors, or (iii) the foreign entity otherwise is exempted under FATCA. While withholding under FATCA would have applied to payments of gross proceeds from the sale or other disposition of our shares received after December 31, 2018, proposed Treasury Regulations eliminate FATCA withholding on payments of gross proceeds entirely. Taxpayers may generally rely on these proposed Treasury Regulations until final Treasury Regulations are issued.

If withholding is required under FATCA on a payment related to our shares, investors that otherwise would not be subject to withholding (or that otherwise would be entitled to a reduced rate of withholding) generally will be required to seek a refund or credit from the IRS to obtain the benefit of such exemption or reduction (provided that such benefit is available). Prospective investors should consult their tax advisors regarding the effect of FATCA in their particular circumstances.

Taxation of Holders of Debt Securities

The following discussion summarizes certain U.S. federal income tax considerations relating to the purchase, ownership and disposition of certain debt securities that we may offer. This summary assumes the debt securities will be issued with no more than a de minimis amount of original issue discount for U.S. federal income tax purposes. This summary only applies to investors that will hold their debt securities as "capital assets" (within the meaning of Section 1221 of the Code) and purchase their debt securities in the initial offering at their offering price. If such debt securities are purchased at a price other than the offering price, the amortizable bond premium or market discount rules may apply which are not described herein. Prospective holders should consult their own tax advisors regarding these possibilities. This section also does not apply to any debt securities treated as "equity," rather than debt, for U.S. federal income tax purposes.

The tax consequences of owning any notes issued with more than de minimis original issue discount, floating rate debt securities, convertible or exchangeable notes, indexed notes or other debt securities not covered by this discussion that we offer will be discussed in the applicable prospectus supplement.

U.S. Holders of Debt Securities

This section summarizes the taxation of U.S. Holders of debt securities that are not tax-exempt organizations. For these purposes, the term "U.S. Holder" is a beneficial owner of our debt securities that is, for U.S. federal income tax purposes:

- a citizen or resident of the United States;
- a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or of a political subdivision thereof (including the District of Columbia);

- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- any trust if a U.S. court is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of the trust.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds our debt securities, the U.S. federal income tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. A partner of a partnership holding our debt securities should consult its own tax advisor regarding the U.S. federal income tax consequences to the partner of the acquisition, ownership and disposition of our debt securities by the partnership.

Payments of Interest. Interest on a note will generally be taxable to a U.S. Holder as ordinary interest income at the time it is received or accrued, in accordance with the U.S. Holder's regular method of tax accounting for U.S. federal income tax purposes.

Sale, Exchange, Retirement, Redemption or Other Taxable Disposition of the Debt Securities. Upon a sale, exchange, retirement, redemption or other taxable disposition of debt securities, a U.S. Holder generally will recognize taxable gain or loss in an amount equal to the difference, if any, between the "amount realized" on the disposition and the U.S. Holder's adjusted tax basis in such debt securities. The amount realized will include the amount of any cash and the fair market value of any property received for the debt securities (other than any amount attributable to accrued but unpaid interest, which will be taxable as ordinary income (as described above under "—Taxation of Holders of Debt Securities—U.S. Holders of Debt Securities—Payments of Interest") to the extent not previously included in income). A U.S. Holder's adjusted tax basis in a note generally will be equal to the cost of the note to such U.S. Holder decreased by any payments received on the note other than stated interest. Any such gain or loss generally will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder's holding period for the note is more than one year at the time of disposition. For non-corporate U.S. Holders, long-term capital gain generally will be subject to reduced rates of taxation. The deductibility of capital losses against ordinary income is subject to certain limitations.

Information Reporting and Backup Withholding. Payments of interest on, or the proceeds of the sale, exchange or other taxable disposition (including a retirement or redemption) of, a note are generally subject to information reporting unless the U.S. Holder is an exempt recipient (such as a corporation). Such payments may also be subject to U.S. federal backup withholding unless (1) the U.S. Holder is an exempt recipient (such as a corporation), or (2) prior to payment, the U.S. Holder provides a taxpayer identification number and certifies as required on a duly completed and executed IRS Form W-9 (or permitted substitute or successor form), and otherwise complies with the requirements of the backup withholding rules. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against that U.S. Holder's U.S. federal income tax liability provided the required information is timely furnished to the IRS.

Net Investment Income. In certain circumstances, certain U.S. Holders that are individuals, estates, or trusts are subject to a 3.8% tax on "net investment income," which includes, among other things, interest income and net gains from the sale, exchange or other taxable disposition (including a retirement or redemption) of the debt securities, unless such interest payments or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive activities or securities or commodities trading activities). Investors in debt securities should consult their own tax advisors regarding the applicability of this tax to their income and gain in respect of their investment in the debt securities.

Tax-Exempt Holders of Debt Securities

In general, a tax-exempt organization is exempt from U.S. federal income tax on its income, except to the extent of its UBTI (as defined above under "—Taxation of U.S. Shareholders-Taxation of U.S. Tax-Exempt Shareholders"). Interest income accrued on the debt securities and gain recognized in connection with dispositions of the debt securities generally will not constitute UBTI unless the tax-exempt organization holds the debt securities as debt-financed property (e.g., the tax-exempt organization has incurred "acquisition indebtedness" with respect to such debt securities). Before making an investment in the debt securities, a tax-exempt investor should consult its tax advisors with regard to UBTI and the suitability of the investment in the debt securities.

Non-U.S. Holders of Debt Securities

The following discussion addresses the rules governing U.S. federal income taxation of Non-U.S. Holders of debt securities.

For purposes of this summary, "Non-U.S. Holder" is a beneficial owner of our debt securities that is not (i) a U.S. Holder (as defined above under "—U.S. Holders of Debt Securities") or (ii) an entity treated as a partnership for U.S. federal income tax purposes.

Payments of Interest. Subject to the discussions below concerning backup withholding and FATCA (as defined below), all payments of interest on the debt securities made to a Non-U.S. Holder will not be subject to U.S. federal income or withholding taxes under the "portfolio interest" exception of the Code, provided that the Non-U.S. Holder:

- does not own, actually or constructively, 10% or more of the total combined voting power of all classes of our stock that are entitled to vote,

- is not a controlled foreign corporation with respect to which we are a "related person" (within the meaning of Section 864(d)(4) of the Code),

- is not a bank whose receipt of interest on a note is described in Section 881(c)(3)(A) of the Code, and

- provides its name and address on an IRS Form W-8BEN or IRS Form W-8BEN-E (or other applicable form) and certifies, under penalties of perjury, that it is not a U.S. Holder.

The applicable Treasury Regulations provide alternative methods for satisfying the certification requirement described in this section. In addition, under these Treasury Regulations, special rules apply to pass-through entities and this certification requirement may also apply to beneficial owners of pass-through entities. If a Non-U.S. Holder cannot satisfy the requirements described above, payments of interest will generally be subject to the 30% U.S. federal withholding tax, unless the Non-U.S. Holder provides the applicable withholding agent with a properly executed (1) IRS Form W-8BEN or IRS Form W-8BEN-E (or other applicable form) claiming an exemption from or reduction in withholding under an applicable income tax treaty or (2) IRS Form W-8ECI (or other applicable form) stating that interest paid on the debt securities is not subject to U.S. federal withholding tax because it is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States (as discussed below under "—Non-U.S. Holders of Debt Securities—Income Effectively Connected with a U.S. Trade or Business").

Sale, Exchange, Retirement, Redemption or Other Taxable Disposition of the Debt Securities. Subject to the discussions below concerning backup withholding and FATCA and except with respect to accrued but unpaid interest, which generally will be taxable as interest and may be subject to the rules described above under "—Non-U.S. Holders of Debt Securities—Payments of Interest," a Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on the receipt of payments of principal on a note, or on any gain recognized upon the sale, exchange, retirement, redemption or other taxable disposition of a note, unless:

- such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States, in which case such gain will be taxed as described below under "—Non-U.S. Holders of Debt Securities—Income Effectively Connected with a U.S. Trade or Business," or

- such Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of disposition, and certain other conditions are met, in which case such Non-U.S. Holder will be subject to tax at 30% (or, if applicable, a lower treaty rate) on the gain derived from such disposition, which may be offset by U.S. source capital losses.

Income Effectively Connected with a U.S. Trade or Business. If a Non-U.S. Holder is engaged in a trade or business in the United States, and if interest on the debt securities or gain realized on the sale, exchange or other taxable disposition (including a retirement or redemption) of the debt securities is effectively connected with the conduct of such trade or business, the Non-U.S. Holder generally will be subject to regular U.S. federal income tax on such income or gain in the same manner as if the Non-U.S. Holder were a U.S. Holder. If the Non-U.S. Holder is eligible for the benefits of an income tax treaty between the United States and the Non-U.S. Holder's country of residence, any "effectively connected" income or gain generally will be subject to U.S. federal income tax only if it is also attributable to a permanent establishment or fixed base maintained by the Non-U.S. Holder in the United States. In addition, if such a Non-U.S. Holder is a foreign corporation, such holder may also be subject to a branch profits tax equal to 30% (or such lower rate provided by an applicable income tax treaty) of its effectively connected earnings and profits, subject to certain adjustments. Payments of interest that are effectively connected with a U.S. trade or business will not be subject to the 30% U.S. federal withholding tax provided that the Non-U.S. Holder claims exemption from withholding. To claim exemption from withholding, the Non-U.S. Holder must certify its qualification, which generally can be done by providing the applicable withholding agent with a properly executed IRS Form W-8ECI (or other applicable form).

Information Reporting and Backup Withholding. Generally, we must report annually to the IRS and to Non-U.S. Holders the amount of interest paid to Non-U.S. Holders and the amount of tax, if any, withheld with respect to those payments. Copies of these information returns reporting such interest and withholding may also be made available under the provisions of a specific treaty or agreement to the tax authorities of the country in which the Non-U.S. Holder resides. In general, a Non-U.S. Holder will not be subject to backup withholding or additional information reporting requirements with respect to payments of interest that we make, provided that the statement described above in last bullet point under "—Non-U.S. Holders of Debt Securities—Interest" has been received and we do not have actual knowledge or reason to know that the holder is a U.S. person, as defined under the Code, that is not an exempt recipient. In addition, proceeds from a sale or other disposition of a note by a Non-U.S. Holder generally will be subject to information reporting and, depending on the circumstances, backup withholding with respect to payments of the proceeds of the sale or disposition (including a retirement or redemption) of a note within the United States or conducted through certain U.S. or U.S.-related financial intermediaries, unless the statement described above has been received and we do not have actual knowledge or reason to know that the holder is a U.S. person. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against a non-U.S. holder's U.S. federal income tax liability if the required information is furnished in a timely manner to the IRS.

Additional Withholding Requirements. As discussed above under "—Information Reporting and Backup Withholding Tax Applicable to Shareholders—Non-U.S. Shareholders—Withholding on Payments to Certain Foreign Entities," FATCA imposes a 30% withholding tax on certain types of payments made to "foreign financial institutions" and certain other non-U.S. entities unless certain due diligence, reporting, withholding, and certification obligations requirements are satisfied.

As a general matter, payments to Non-U.S. Holders that are foreign entities (whether as beneficial owner or intermediary) of interest on a debt obligation of a U.S. issuer will be subject to a withholding tax (separate and apart from, but without duplication of, the withholding tax described above) at a rate of 30%, unless various U.S. information reporting and due diligence requirements (generally relating to ownership by U.S. persons of interests in or accounts with those entities) have been satisfied. While withholding under FATCA would have applied to payments of gross proceeds from the sale or other disposition of, a debt obligation of a U.S. issuer received after December 31, 2018, proposed Treasury Regulations eliminate FATCA withholding on payments of gross proceeds entirely. Taxpayers may generally rely on these proposed Treasury Regulations until final Treasury Regulations are issued.

If withholding is required under FATCA on a payment related to the debt securities, Non-U.S. Holders that otherwise would not be subject to withholding (or that otherwise would be entitled to a reduced rate of withholding) generally will be required to seek a refund or credit from the IRS to obtain the benefit of such exemption or reduction (provided that such benefit is available). Prospective investors should consult their tax advisors regarding the effect of FATCA in their particular circumstances.

Other Tax Considerations

State, Local and Foreign Taxes

We may be required to pay tax in various state or local jurisdictions, including those in which we transact business, and our shareholders may be required to pay tax in various state or local jurisdictions, including those in which they reside. Our state and local tax treatment may not conform to the U.S. federal income tax consequences discussed above. In addition, a shareholder's state and local tax treatment may not conform to the U.S. federal income tax consequences discussed above. Consequently, prospective investors should consult with their tax advisors regarding the effect of state and local tax laws on an investment in our shares and depositary shares.

A portion of our income is earned through our taxable REIT subsidiary. A taxable REIT subsidiary is generally subject to U.S. federal, state and local income tax at the full applicable corporate rates. In addition, a taxable REIT subsidiary will be limited in its ability to deduct interest payments in excess of a certain amount made directly or indirectly to us. To the extent that we and/or our taxable REIT subsidiary is required to pay U.S. federal, state or local taxes, we will have less cash available for distribution to shareholders.

Tax Shelter Reporting

If a holder recognizes a loss as a result of a transaction with respect to our shares of at least (i) for a holder that is an individual, S corporation, trust or a partnership with at least one non-corporate partner, $2 million or more in a single taxable year or $4 million or more in a combination of taxable years, or (ii) for a holder that is either a corporation or a partnership with only corporate partners, $10 million or more in a single taxable year or $20 million or more in a combination of taxable years, such holder may be required to file a disclosure statement with the IRS on Form 8886. Direct shareholders of portfolio securities are in many cases exempt from this reporting requirement, but shareholders of a REIT currently are not excepted. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer's treatment of the loss is proper. Shareholders should consult their tax advisors to determine the applicability of these regulations in light of their individual circumstances.

Legislative or Other Actions Affecting REITs

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department. We cannot give you any assurances as to whether, or in what form, any proposals affecting REITs or their shareholders will be enacted. Changes to the U.S. federal tax laws and interpretations thereof could adversely affect an investment in our shares. Shareholders should consult their tax advisors regarding the effect of potential changes to the U.S. federal tax laws and on an investment in our shares.

ITEM 9C: DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.

Not applicable.

PART III

Certain information required by Part III has been omitted pursuant to General Instruction G(3) to Form 10-K. We will file a definitive proxy statement pursuant to Regulation 14A with respect to our 2024 Annual Meeting (the "Proxy Statement") no later than 120 days after the end of the fiscal year covered by this Form 10-K, and certain information included therein is incorporated herein by reference. Only those sections of the Proxy Statement which specifically address the items set forth herein are incorporated by reference. In addition, we have adopted a code of ethics that applies to all of our trustees, officers and employees, which can be reviewed and printed from our website www.elmecommunities.com. The reference to our website address does not constitute incorporation by reference of the information contained in the website and such information should not be considered part of this document.

ITEM 10: DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is hereby incorporated herein by reference to our Proxy Statement.

ITEM 11: EXECUTIVE COMPENSATION

The information required by this Item is hereby incorporated herein by reference to our Proxy Statement.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is hereby incorporated herein by reference to our Proxy Statement.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is hereby incorporated herein by reference to our Proxy Statement.

ITEM 14: PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is hereby incorporated herein by reference to our Proxy Statement.

PART IV

ITEM 15: EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(A). The following documents are filed as part of this Form 10-K:

1 Financial Statements

2 Financial Statement Schedules

All other schedules are omitted because they are either not required or the required information is shown in the financial statements or notes thereto.

3 Exhibits:

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
3.1	Articles of Amendment and Restatement of Declaration of Trust of the Company, as amended	10-K	001-06622	3.1	2/17/2023	
3.2	Amended and Restated Bylaws of Elme Communities, as amended	8-K	001-06622	3.1	9/20/2023	
4.1	Indenture dated as of August 1, 1996 between Washington REIT and The First National Bank of Chicago	8-K	001-06622	(c)	8/13/1996	
4.2	Form of 2028 Notes	8-K	001-06622	99.1	2/25/1998	
4.3	Supplemental Indenture by and between Washington REIT and the Bank of New York Trust Company, N.A. dated as of July 3, 2007	8-K	001-06622	4.1	7/5/2007	
4.4	Description of Registrant's Securities	10-K	001-06622	4.4	2/17/2023	
10.1*	Supplemental Executive Retirement Plan II dated January 1, 2008	10-K	001-06622	10.1	2/17/2023	
10.2*	Form of Indemnification Agreement by and between Washington REIT and the indemnitee	8-K	001-06622	10(nn)	7/27/2009	
10.3*	Deferred Compensation Plan for Officers, effective January 1, 2007, as amended and restated on January 1, 2011	10-K	001-06622	10.3	2/17/2023	
10.4*	Amendment to Amended and Restated Deferred Compensation Plan for Officers, adopted December 31, 2012	10-K	001-06622	10.37	2/27/2013	
10.5*	Amendment to Amended and Restated Deferred Compensation Plan for Officers, adopted February 13, 2013	10-Q	001-06622	10.45	5/9/2013	
10.6*	Amendment to Amended and Restated Deferred Compensation Plan for Officers, adopted February 18, 2014	10-K	001-06622	10.45	3/3/2014	
10.7*	Amended and Restated Trustee Deferred Compensation Plan, effective October 21, 2015	10-Q	001-06622	10.61	11/4/2015	
10.9*	2016 Omnibus Incentive Plan	DEF 14A	001-06622	Annex A	3/23/2016	
10.10*	Long Term Incentive Plan (effective January 1, 2014)	10-Q	001-06622	10.50	8/5/2014	
10.11*	Amendment to Long Term Incentive Plan	10-Q	001-06622	10.60	11/4/2015	
10.12*	Amendment Number Two to Washington Real Estate Investment Trust 2014 Long-Term Incentive Plan (effective January 1, 2018)	10-Q	001-06622	10.54	4/30/2018	

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File Number	Exhibit	Filing Date	Filed Herewith
10.13*	Washington Real Estate Investment Trust Amended and Restated Executive Short-Term Incentive Plan, effective January 1, 2020	10-K	001-06622	10.45	2/19/2020	
10.14*	Washington Real Estate Investment Trust Amended and Restated Executive Long-Term Incentive Plan, effective January 1, 2020	10-K	001-06622	10.46	2/19/2020	
10.15*	Note Purchase Agreement, dated as of September 30, 2020, by and among Washington Real Estate Investment Trust and other parties named therein as Purchasers	10-Q	001-06622	10.1	10/30/2020	
10.16*	Employment Agreement dated August 19, 2013 with Paul T. McDermott	10-Q	001-06622	10.54	11/1/2013	
10.17*	Change in control agreement dated October 1, 2013 with Paul T. McDermott	10-K	001-06622	10.44	3/3/2014	
10.18*	Amendment No. 1 To Change in Control Agreement with Paul T. McDermott	10-K	001-06622	10.18	2/17/2023	
10.19*	Executive Officer Severance Pay Plan, adopted August 4, 2014	10-Q	001-06622	10.54	10/30/2014	
10.20*	Offer Letter to Stephen E. Riffee	10-K	001-06622	10.55	3/2/2015	
10.21*	Change in control agreement dated February 27, 2015 with Stephen E. Riffee	10-K	001-06622	10.56	3/2/2015	
10.22*	Change in control agreement dated February 2, 2022 with Susan L. Gerock	10-Q	001-06622	10.1	4/28/2022	
10.23*	Amendment No. 1 To Change in Control Agreement with Susan L. Gerock	10-K	001-06622	10.18	2/17/2023	
10.24*	Agreement and General Release between Stephen E. Riffee and Elme Communities	10-K	001-06622	10.27	2/17/2023	
10.25*	Form of Change in Control Agreement	10-K	001-06622	10.28	2/17/2023	
10.26*	Amendment Number One to Washington Real Estate Investment Trust Amended and Restated Executive Officer Long-Term Incentive Plan	10-K	001-06622	10.29	2/17/2023	
10.27*	Amendment Number One to Washington Real Estate Investment Trust Amended and Restated Executive Officer Short-Term Incentive Plan	10-K	001-06622	10.3	2/17/2023	
10.28	Second Amended and Restated Credit Agreement, dated August 26, 2021, by and among Washington Real Estate Investment Trust, as borrower, the financial institutions party thereto as lenders, and Wells Fargo Bank, National Association, as administrative agent	10-Q	001-06622	10.2	10/29/2021	
10.29	First Amendment to Second Amended and Restated Credit Agreement, dated January 10, 2023, by and among Elme Communities, as borrower, the financial institutions party thereto as lenders, and Wells Fargo Bank, National Association, as administrative agent	10-K	001-06622	10.33	2/17/2023	
10.30*	Offer Letter to Tiffany Butcher	10-Q	001-06622	10.1	8/1/2023	
21	Subsidiaries of Registrant					X
23	Consent of Independent Registered Public Accounting Firm					X
24	Power of Attorney					X
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended ("the Exchange Act")					X
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act					X
31.3	Certification of the Chief Administrative Officer pursuant to Rule 13a-14(a) of the Exchange Act					X
32	Certification of the Chief Executive Officer, Chief Financial Officer and Chief Administrative Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
97	Elme Communities Compensation Recovery Policy					X
101	INS-XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101)					

* Management contracts or compensation plans or arrangements in which trustees or executive officers are eligible to participate.

In accordance with Item 601(b)(4)(iii)(A) of Regulation S-K, copies of certain instruments defining the rights of holders of long-term debt of Elme Communities or its subsidiaries are not filed herewith. Pursuant to this regulation, we hereby agree to furnish a copy of any such instrument to the SEC upon request.

ITEM 16: FORM 10-K SUMMARY

We have chosen not to include a Form 10-K Summary.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ELME COMMUNITIES

Date: February 16, 2024

By: /s/ Paul T. McDermott
Paul T. McDermott
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Paul T. McDermott Paul T. McDermott	Chairman and Chief Executive Officer	February 16, 2024
/s/ Benjamin S. Butcher* Benjamin S. Butcher	Lead Independent Trustee	February 16, 2024
/s/ Jennifer S. Banner* Jennifer S. Banner	Trustee	February 16, 2024
/s/ Susan B. Carras* Susan B. Carras	Trustee	February 16, 2024
/s/ Ellen M. Goitia* Ellen M. Goitia	Trustee	February 16, 2024
/s/ Thomas H. Nolan, Jr.* Thomas H. Nolan, Jr.	Trustee	February 16, 2024
/s/ Anthony L. Winns* Anthony L. Winns	Trustee	February 16, 2024
/s/ Steven M. Freishtat Steven M. Freishtat	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 16, 2024
/s/ W. Drew Hammond W. Drew Hammond	Senior Vice President, Chief Administrative Officer and Treasurer (Principal Accounting Officer)	February 16, 2024

* By: /s/ W. Drew Hammond through power of attorney
W. Drew Hammond

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Elme Communities is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal controls over financial reporting. Elme Communities’ internal control system over financial reporting is a process designed under the supervision of Elme Communities’ principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions.

In connection with the preparation of Elme Communities’ annual consolidated financial statements, management has undertaken an assessment of the effectiveness of Elme Communities’ internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control-Integrated Framework issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission (the 2013 COSO Framework). Management’s assessment included an evaluation of the design of Elme Communities’ internal control over financial reporting and testing of the operational effectiveness of those controls.

Based on this assessment, management has concluded that as of December 31, 2023, Elme Communities’ internal control over financial reporting was effective at a reasonable assurance level regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Ernst & Young LLP, the independent registered public accounting firm that audited Elme Communities’ consolidated financial statements included in this report, has issued an unqualified opinion on the effectiveness of Elme Communities’ internal control over financial reporting, a copy of which appears on page 85 of this annual report.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Trustees of Elme Communities

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Elme Communities and Subsidiaries (the Company) as of December 31, 2023 and 2022, the related consolidated statements of operations, comprehensive income (loss), equity and cash flows for each of the three years in the period ended December 31, 2023, and the related notes and financial statement schedules listed in the Index at Item 15(A)(2) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 16, 2024 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

	Accounting for Acquisition of Real Estate
Description of the Matter	During the year ended December 31, 2023, the Company acquired one real estate property for an aggregate purchase price of $108.0 million as disclosed in Note 3 to the consolidated financial statements. This transaction was accounted for as asset acquisition. Auditing the Company's accounting for this acquisition involves a higher degree of auditor judgment due to management's use of estimates in determining the relative fair values of the tangible and identified intangible assets acquired. The significant assumptions used to estimate the values of the tangible and intangible assets included the replacement cost of the acquired real estate assets, estimated future cash flows and other valuation assumptions, which are based on internal analyses and other market data.

How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company’s process for estimating the relative fair value of acquired assets and allocating purchase price to the various components, including controls over management’s determination and review of the significant assumptions used in the analyses described above. To test the relative fair values of acquired tangible and intangible assets used in the purchase price allocation, we involved our valuation specialists and performed audit procedures that included, among others, evaluating the Company’s valuation methodologies, testing the significant assumptions described above and testing the completeness and accuracy of the underlying data. For example, we compared the significant assumptions used and the Company’s estimated relative fair values of acquired assets to observable market data, including other properties within the same submarkets.
	Impairment of Watergate 600
Description of the Matter	During the year ended December 31, 2023, the Company recognized an impairment charge of $41.9 million on its single office property, Watergate 600, as described in Note 3 to the consolidated financial statements. As discussed in Note 2 to the consolidated financial statements, the Company assesses real estate assets for impairment whenever events or changes in circumstances indicate that the carrying value of a real estate asset may not be recoverable. Impairment is recognized when indicators of impairment are present and the future undiscounted cash flows for a real estate asset are less than its carrying amount, at which time the real estate asset is written down to its estimated fair value, should the carrying value exceed the fair value. Auditing the Company’s accounting for impairment of Watergate 600 was complex and involved a high degree of subjectivity in evaluating management’s assessment of recoverability and the resulting measurement of impairment when the asset is not deemed recoverable. Management’s use of assumptions and estimates is inherent in the determination of estimated future cash flows expected to result from the property’s use and eventual disposition and the estimated fair value of the property. In particular, management’s assumptions and estimates included estimated future revenue and expenses and capitalization rates, which were sensitive to expectations about market or economic conditions.
How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company’s real estate asset impairment assessment process. For example, we tested controls over management’s process and assumptions for assessing recoverability and evaluating the assumptions used to determine fair value when the asset’s carrying value is deemed not recoverable. To test the Company's accounting for impairment of Watergate 600, we performed audit procedures that included, among others, evaluating the methodologies applied and testing the significant assumptions discussed above in the recoverability assessment and valuation analysis. We involved our valuation specialists to assist in performing these procedures. For example, we evaluated the significant assumptions used to estimate future cash flows for reasonableness by comparing them to the Company’s historical accounting records or to available market data. We held discussions with management about judgments used to understand the probability of future leasing events that could affect cash flow assumptions for the property.

/s/ Ernst & Young LLP

We have served as the Company’s auditor since 2002.

Tysons, Virginia
February 16, 2024

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Trustees of Elme Communities

Opinion on Internal Control Over Financial Reporting

We have audited Elme Communities and Subsidiaries' internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Elme Communities and Subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2023 consolidated financial statements of the Company and our report dated February 16, 2024 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Tysons, Virginia
February 16, 2024

ELME COMMUNITIES AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	December 31, 2023	December 31, 2022
Assets		
Land	$ 384,097	$ 373,171
Income producing property	1,960,020	1,897,835
	2,344,117	2,271,006
Accumulated depreciation and amortization	(528,024)	(481,588)
Net income producing property	1,816,093	1,789,418
Properties under development or held for future development	30,980	31,260
Total real estate held for investment, net	1,847,073	1,820,678
Cash and cash equivalents	5,984	8,389
Restricted cash	2,554	1,463
Rents and other receivables	17,642	16,346
Prepaid expenses and other assets	26,775	25,730
Total assets	$ 1,900,028	$ 1,872,606
Liabilities		
Notes payable, net	$ 522,345	$ 497,359
Line of credit	157,000	55,000
Accounts payable and other liabilities	38,997	34,386
Dividend payable	15,863	14,934
Advance rents	5,248	1,578
Tenant security deposits	6,225	5,563
Total liabilities	745,678	608,820
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; 150,000 shares authorized: 87,867 and 87,534 shares issued and outstanding, as of December 31, 2023 and 2022, respectively	879	875
Additional paid in capital	1,735,530	1,729,854
Distributions in excess of net income	(569,391)	(453,008)
Accumulated other comprehensive loss	(12,958)	(14,233)
Total shareholders' equity	1,154,060	1,263,488
Noncontrolling interests in subsidiaries	290	298
Total equity	1,154,350	1,263,786
Total liabilities and equity	$ 1,900,028	$ 1,872,606

See accompanying notes to the consolidated financial statements.

ELME COMMUNITIES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Year Ended December 31,		
	2023	**2022**	**2021**
Revenue			
Real estate rental revenue	$ 227,911	$ 209,380	$ 169,151
Expenses			
Property operating and maintenance	50,985	47,384	38,573
Real estate taxes and insurance	28,845	26,617	22,209
Property management	8,108	7,436	6,133
General and administrative	25,887	28,258	27,538
Transformation costs	6,339	9,686	6,635
Depreciation and amortization	88,950	91,722	72,656
Real estate impairment	41,860	—	—
	250,974	211,103	173,744
Real estate operating loss	(23,063)	(1,723)	(4,593)
Other income (expense)			
Interest expense	(30,429)	(24,940)	(34,063)
Loss on interest rate derivatives	—	—	(5,866)
Loss on extinguishment of debt, net	(54)	(4,917)	(12,727)
Other income	569	712	4,109
	(29,914)	(29,145)	(48,547)
Loss from continuing operations	(52,977)	(30,868)	(53,140)
Discontinued operations:			
Income from operations of properties sold or held for sale	—	—	23,083
Gain on sale of real estate, net	—	—	46,441
Income from discontinued operations	—	—	69,524
Net (loss) income	$ (52,977)	$ (30,868)	$ 16,384
Basic net (loss) income per share			
Continuing operations	$ (0.61)	$ (0.36)	$ (0.63)
Discontinued operations	—	—	0.82
Basic net (loss) income per share [(1)]	$ (0.61)	$ (0.36)	$ 0.19
Diluted net (loss) income per share			
Continuing operations	$ (0.61)	$ (0.36)	$ (0.63)
Discontinued operations	—	—	0.82
Diluted net (loss) income per share [(1)]	$ (0.61)	$ (0.36)	$ 0.19
Weighted average shares outstanding – basic	87,735	87,388	84,544
Weighted average shares outstanding – diluted	87,735	87,388	84,544

(1) Earnings per share may not sum due to rounding

See accompanying notes to the consolidated financial statements.

ELME COMMUNITIES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(IN THOUSANDS)

	Year Ended December 31,		
	2023	**2022**	**2021**
Net (loss) income	$ (52,977)	$ (30,868)	$ 16,384
Other comprehensive income (loss):			
Unrealized (loss) gain on interest rate derivatives	(764)	2,819	3,673
Reclassification of unrealized loss on interest rate derivatives to earnings	2,039	2,039	7,799
Comprehensive (loss) income	$ (51,702)	$ (26,010)	$ 27,856

See accompanying notes to the consolidated financial statements.

ELME COMMUNITIES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY
(IN THOUSANDS)

	Shares	Shares of Beneficial Interest at Par Value	Additional Paid in Capital	Distributions in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Non-controlling Interests in Subsidiary	Total Equity
Balance, December 31, 2020	84,409	844	1,649,366	(298,860)	(30,563)	1,320,787	322	1,321,109
Net income	—	—	—	16,384	—	16,384	—	16,384
Unrealized gain on interest rate hedges	—	—	—	—	3,673	3,673	—	3,673
Loss on interest rate derivatives	—	—	—	—	5,760	5,760	—	5,760
Amortization of swap settlements	—	—	—	—	2,039	2,039	—	2,039
Distributions to noncontrolling interests	—	—	—	—	—	—	(15)	(15)
Dividends ($0.94 per common share)	—	—	—	(80,018)	—	(80,018)	—	(80,018)
Equity offerings, net of issuance costs	1,636	17	40,445	—	—	40,462	—	40,462
Shares issued under Dividend Reinvestment Program	75	—	1,744	—	—	1,744	—	1,744
Share grants, net of forfeitures and tax withholdings	141	2	5,922	—	—	5,924	—	5,924
Balance, December 31, 2021	86,261	863	1,697,477	(362,494)	(19,091)	1,316,755	307	1,317,062
Net loss	—	—	—	(30,868)	—	(30,868)	—	(30,868)
Unrealized gain on interest rate hedges	—	—	—	—	2,819	2,819	—	2,819
Amortization of swap settlements	—	—	—	—	2,039	2,039	—	2,039
Distributions to noncontrolling interests	—	—	—	—	—	—	(9)	(9)
Dividends ($0.68 per common share)	—	—	—	(59,646)	—	(59,646)	—	(59,646)
Equity offerings, net of issuance costs	1,032	10	26,839	—	—	26,849	—	26,849
Shares issued under Dividend Reinvestment Program	47	—	1,030	—	—	1,030	—	1,030
Share grants, net of forfeitures and tax withholdings	194	2	4,508	—	—	4,510	—	4,510
Balance, December 31, 2022	87,534	875	1,729,854	(453,008)	(14,233)	1,263,488	298	1,263,786
Net loss	—	—	—	(52,977)	—	(52,977)	—	(52,977)
Unrealized gain on interest rate hedges	—	—	—	—	(764)	(764)	—	(764)
Amortization of swap settlements	—	—	—	—	2,039	2,039	—	2,039
Distributions to noncontrolling interests	—	—	—	—	—	—	(8)	(8)
Dividends ($0.72 per common share)	—	—	—	(63,406)	—	(63,406)	—	(63,406)
Shares issued under Dividend Reinvestment Program	28	—	497	—	—	497	—	497
Share grants, net of forfeitures and tax withholdings	305	4	5,179	—	—	5,183	—	5,183
Balance, December 31, 2023	87,867	$ 879	$1,735,530	$ (569,391)	$ (12,958)	$ 1,154,060	$ 290	$1,154,350

See accompanying notes to the consolidated financial statements.

ELME COMMUNITIES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Year Ended December 31,		
	2023	2022	2021
Cash flows from operating activities			
Net (loss) income	$ (52,977)	$ (30,868)	$ 16,384
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	88,950	91,722	95,560
Credit losses on lease related receivables	4,833	2,483	2,482
Real estate impairment	41,860	—	—
Gain on sale of real estate	—	—	(46,441)
Share-based compensation expense	5,538	7,988	8,553
Amortization of debt premiums, discounts and related financing costs	4,218	4,052	4,325
Loss on interest rate derivatives	—	—	5,866
Loss on extinguishment of debt, net	54	4,917	12,727
Changes in other assets	(11,294)	(1,602)	(4,681)
Changes in other liabilities	3,487	(5,481)	(5,619)
Net cash provided by operating activities	84,669	73,211	89,156
Cash flows from investing activities			
Real estate acquisitions, net	(107,595)	(204,433)	(153,748)
Net cash received from sale of real estate	—	—	897,783
Capital improvements to real estate	(38,218)	(36,513)	(32,410)
Development in progress	—	(698)	(8,406)
Non-real estate capital improvements	(408)	(1,743)	(49)
Insurance proceeds	—	2,224	—
Real estate deposits	—	—	(1,000)
Net cash (used in) provided by investing activities	(146,221)	(241,163)	702,170
Cash flows from financing activities			
Line of credit borrowings (repayments), net	102,000	55,000	(42,000)
Dividends paid	(64,335)	(59,363)	(90,728)
Principal payments – mortgage notes payable	—	(76,598)	—
Repayments of notes payable	—	—	(311,894)
Repayments of unsecured term loan debt	(100,000)	—	(150,000)
Proceeds from term loan	125,000	—	—
Settlement of interest rate derivatives	—	—	(5,866)
Payment of financing costs	(844)	(39)	(4,858)
Distributions to noncontrolling interests	(8)	(9)	(15)
Proceeds from dividend reinvestment program	497	1,030	1,744
Net proceeds from equity issuances	—	26,849	40,462
Payment of tax withholdings for restricted share awards	(2,072)	(3,286)	(2,241)
Net cash provided by (used in) financing activities	60,238	(56,416)	(565,396)
Net (decrease) increase in cash, cash equivalents and restricted cash	(1,314)	(224,368)	225,930
Cash, cash equivalents and restricted cash at beginning of year	9,852	234,220	8,290
Cash, cash equivalents and restricted cash at end of year	$ 8,538	$ 9,852	$ 234,220

ELME COMMUNITIES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Year Ended December 31,		
	2023	2022	2021
Supplemental disclosure of cash flow information:			
Cash paid for interest, net of capitalized interest expense	$ 23,502	$ 20,842	$ 27,166
Change in accrued capital improvements and development costs	9,556	609	(6,949)
Dividend payable	15,863	14,934	14,650
Reconciliation of cash, cash equivalents and restricted cash:			
Cash and cash equivalents	$ 5,984	$ 8,389	$ 233,600
Restricted cash	2,554	1,463	620
Cash, cash equivalents and restricted cash	$ 8,538	$ 9,852	$ 234,220

See accompanying notes to the consolidated financial statements.

NOTE 1: NATURE OF BUSINESS

Elme Communities, a Maryland real estate investment trust, formerly known as Washington Real Estate Investment Trust, is a self-administered equity real estate investment trust, successor to a trust organized in 1960. Our business primarily consists of the ownership and operation of apartment communities in the greater Washington, DC metro and Sunbelt regions.

U.S. Federal Income Taxes

We believe that we qualify as a REIT under Sections 856-860 of the Internal Revenue Code of 1986, as amended (the "Code"), and intend to continue to qualify as such. 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. We sold no properties in 2023 or 2022. We sold twelve office and eight retail properties for an aggregate gain of $46.4 million during the year ended December 31, 2021.

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. As of both December 31, 2023 and 2022, our TRSs had a deferred tax asset of $1.4 million that was fully reserved.

Beginning in 2018, ordinary taxable income per share is equal to the Section 199A dividend that was created by the Tax Cuts and Jobs Act. The following is a breakdown of the taxable percentage of our dividends for the three years ended December 31, 2023 (unaudited):

	2023	2022	2021
Ordinary income/Section 199A dividends	33 %	20 %	— %
Return of capital	67 %	80 %	100 %
Qualified dividends	— %	— %	— %
Unrecaptured Section 1250 gain	— %	— %	— %
Capital gain	— %	— %	— %

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

Recent Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2020-04, Reference Rate Reform ("Topic 848"), which was amended in December 2022 by ASU 2022-06, Reference Rate Reform (Topic 848). Topic 848 contains practical expedients for reference rate reform related activities that impact debt, leases, derivatives and other contracts. The guidance in Topic 848 is optional and may be elected through December 31, 2024 as reference rate reform activities occur. During the first quarter of 2023, we executed an amendment to the $700.0 million unsecured revolving credit facility (“Revolving Credit Facility”) to convert the benchmark interest rate from LIBOR to an adjusted SOFR ("Secured Overnight Financing Rate"). We elected to apply the optional expedients in Topic 848 to (i) assert that the hedged interest payments remain probable regardless of any expected modification in terms related to reference rate reform, and (ii) continue the method of assessing effectiveness as documented in the original hedge documentation so that the reference rate on the hypothetical derivative matches the reference rate on the hedging instrument. Application of these expedients preserves the presentation of derivatives consistent with past presentation. The impact of this guidance did not have a material impact on our consolidated financial statements.

Principles of Consolidation and Basis of Presentation

The accompanying audited consolidated financial statements include the consolidated accounts of Elme Communities and our subsidiaries and entities in which Elme Communities has a controlling financial interest. All intercompany balances and transactions have been eliminated in consolidation.

Certain immaterial amounts in prior periods have been reclassified to conform with the current period presentation. The primary changes to the consolidated statements of operations are reclassifications between property operating and maintenance expense and real estate taxes and insurance expense.

We have prepared the accompanying audited consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission.

Use of Estimates in the Financial Statements

The preparation of financial statements in conformity with Generally Accepted Accounting Principles ("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.

Revenue Recognition

We primarily lease residential properties under operating leases with terms of generally one year or less. Rental revenues are recognized in accordance with ASC Topic 842, *Leases*, using a method that represents straight-line basis over the term of the leases. In circumstances where a lease concession is provided to the resident, primarily in lease-up, we recognize a reduction of rental revenues on a straight-line basis.

We also generate other property-related revenue associated with the leasing of apartment homes, including parking income, move-in charges, pet rent and other miscellaneous revenue. Similar to rental income, such revenues are recorded when due from residents and recognized monthly as they are earned.

We recognize cost reimbursement income at our residential properties from pass-through expenses on an accrual basis over the periods in which the expenses were incurred. Pass-through expenses are primarily comprised of utility costs which are reimbursed by residents in accordance with specific allowable costs per resident lease agreements.

We recognize gains on sales of real estate when we have executed a contract for sale of the asset, transferred controlling financial interest in the asset to the buyer and determined that it is probable that we will collect substantially all of the consideration for the asset. Our real estate sale transactions typically meet these criteria at closing.

Rents and Other Receivables

Lease related receivables, which include contractual amounts accrued and unpaid from residents and accrued straight-line rents receivable, are reduced for credit losses. Such amounts are recognized as a reduction to real estate rental revenues. We evaluate the collectability of lease receivables on a lease-by-lease basis. We recognize the credit loss on lease related receivables when, in the opinion of management, collection of substantially all lease payments is not probable. When collectability is determined not probable, any lease income recognized subsequent to recognizing the credit loss is limited to the lesser of the lease income reflected on a straight-line basis or cash collected.

Debt Issuance Costs

We amortize external debt issuance costs using the effective interest rate method or the straight-line method, which approximates the effective interest rate method over the estimated life of the related debt. We record debt issuance costs related to notes, net of amortization, on our consolidated balance sheets as an offset to their related debt. We record debt issuance costs related to revolving lines of credit on our consolidated balance sheets with Prepaid expenses and other assets, regardless of whether a balance on the line of credit is outstanding. We record the amortization of all debt issuance costs as interest expense.

Real Estate and Depreciation

We depreciate buildings on a straight-line basis over an estimated useful life of 26 to 40 years. We capitalize all capital improvements associated with replacements, improvements or major repairs to real property that extend its useful life and depreciate them using the straight-line method over their estimated useful lives ranging from 3 to 40 years. We also capitalize costs incurred in connection with our development projects, including interest incurred on borrowing obligations and other internal costs during periods in which qualifying expenditures have been made and activities necessary to get the development projects ready for their intended use are in progress. Capitalization of these costs begins when the activities and related expenditures commence and ceases when the project is substantially complete and ready for its intended use, at which time the project is placed into service and depreciation commences.

Real estate depreciation expense from continuing operations was $82.7 million, $77.2 million and $66.2 million during the years ended December 31, 2023, 2022 and 2021, respectively.

We charge maintenance and repair costs that do not extend an asset’s useful life to expense as incurred.

Interest expense from continuing operations and interest capitalized to real estate assets related to development and major renovation activities for the three years ended December 31, 2023 were as follows (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Total interest incurred	$ 30,429	$ 25,223	$ 34,813
Capitalized interest	—	(283)	(750)
Interest expense, net of capitalized interest	$ 30,429	$ 24,940	$ 34,063

We recognize impairment losses on long-lived assets used in operations, development assets or land held for future development if indicators of impairment are present and the net undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Estimates of undiscounted cash flows are based on forward-looking assumptions, including annual and residual cash flows and our estimated holding period for each property. Such assumptions involve a high degree of judgment and could be affected by future economic and market conditions. When determining if a property has indicators of impairment, we evaluate the property's occupancy, our expected holding period for the property, strategic decisions regarding the property's future operations or development and other market factors. If such carrying amount is in excess of the estimated undiscounted cash flows from the operation and disposal of the property, we would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its estimated fair value, calculated in accordance with current GAAP fair value provisions. Assets held for sale are recorded at the lower of cost or fair value less costs to sell.

Asset Acquisitions

The properties we acquire typically are not businesses as defined by ASC 805 ("Topic 805") - Clarifying the Definition of a Business. Per this definition, a set of transferred assets and activities is not a business when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. We therefore account for such acquisitions as asset acquisitions. Acquisition costs are capitalized and identifiable assets (including physical assets and in-place leases), liabilities assumed and any noncontrolling interests are measured by allocating the cost of the acquisition on a relative fair value basis.

We determine the fair values of acquired buildings on an “as-if-vacant” basis considering a variety of factors, including the replacement cost of the property, estimated rental and absorption rates, estimated future cash flows and valuation assumptions consistent with current market conditions. We determine the fair value of land acquired based on comparisons to similar properties that have been recently marketed for sale or sold.

The fair value of in-place leases are based upon our evaluation of the specific characteristics of the leases. Factors considered in the fair value analysis include the estimated cost to replace the leases, including foregone rent and expense reimbursements during the hypothetical expected lease-up periods (referred to as “absorption cost”), consideration of current market conditions and costs to execute similar leases. We classify leasing absorption costs as other assets and amortize absorption costs as amortization expense on a straight-line basis over the remaining life of the underlying leases.

Software Developed for Internal Use

The costs of software developed for internal use that qualify for capitalization are included with Prepaid expenses and other assets on our consolidated balance sheets. These capitalized costs include external direct costs utilized in developing or obtaining the applications and expenses for employees who are directly associated with the development of the applications. Capitalization of such costs begins when the preliminary project stage is complete and continues until the project is substantially complete and is ready for its intended purpose. Completed projects are amortized on a straight-line basis over their estimated useful lives.

Held for Sale and Discontinued Operations

We classify properties as held for sale when they meet the necessary criteria, which include: (a) senior management commits to a plan to sell the assets; (b) the assets are available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such assets; (c) an active program to locate a buyer and other actions required to complete the plan to sell the assets has been initiated; (d) the sale of the assets is probable and transfer of the assets is expected to qualify for recognition as a completed sale within one year; (e) the assets are being actively marketed for sale at a price that is reasonable in relation to its current fair value; and (f) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Depreciation on these properties is discontinued at the time they are classified as held for sale, but operating revenues, operating expenses and interest expense continue to be recognized until the date of sale.

Revenues and expenses of properties that are either sold or classified as held for sale are presented as discontinued operations for all periods presented in the consolidated statements of operations if the dispositions represent a strategic shift that has (or will have) a major effect on our operations and financial results. Interest on debt that can be identified as specifically attributed to these properties is included in discontinued operations. If the dispositions do not represent a strategic shift that has (or will have) a major effect on our operations and financial results, then the revenues and expenses of the properties that are classified as sold or held for sale are presented as continuing operations in the consolidated statements of operations for all periods presented.

Segments

We evaluate performance based upon net operating income from the combined properties in each segment. Our reportable operating segment is a consolidation of similar properties. GAAP requires that segment disclosures present the measure(s) used by the chief operating decision maker for purposes of assessing segments' performance. Net operating income is a key measurement of our segment profit and loss. Net operating income is defined as segment real estate rental revenue less segment real estate expenses.

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents include cash and commercial paper with original maturities of 90 days or less. We maintain cash deposits with financial institutions that at times exceed applicable insurance limits. We reduce this risk by maintaining such deposits with high quality financial institutions that management believes are credit-worthy.

Restricted cash includes funds escrowed for tenant security deposits.

Transformation Costs

Transformation costs include costs related to the strategic shift away from the commercial sector to residential sector, including the allocation of internal costs, consulting, advisory and termination benefits.

Earnings Per Common Share

We determine "Basic earnings per share" using the two-class method as our unvested restricted share awards and units have non-forfeitable rights to dividends and are therefore considered participating securities. We compute basic earnings per share by dividing net income less the allocation of undistributed earnings to unvested restricted share awards and units by the weighted-average number of common shares outstanding for the period.

We also determine "Diluted earnings per share" under the two-class method with respect to the unvested restricted share awards. We further evaluate any other potentially dilutive securities at the end of the period and adjust the basic earnings per share calculation for the impact of those securities that are dilutive. Our dilutive earnings per share calculation includes the dilutive impact of operating partnership units under the if-converted method and our share based awards with performance conditions prior to the grant date and all market condition awards under the contingently issuable method.

Share-Based Compensation

We currently maintain equity based compensation plans for trustees, officers and employees.

We recognize compensation expense for service-based share awards ratably over the period from the service inception date through the vesting period based on the fair market value of the shares on the date of grant. We account for forfeitures as they occur. If an award's service inception date precedes the grant date, we initially measure compensation expense for awards with performance conditions at fair value at the service inception date based on probability of payout, and we remeasure compensation expense at subsequent reporting dates until all of the award's key terms and conditions are known and the grant date is established. We amortize awards with performance conditions using the graded expense method. We measure compensation expense for awards with market conditions based on the grant date fair value, as determined using a Monte Carlo simulation, and we amortize the expense ratably over the requisite service period, regardless of whether the market conditions are achieved and the awards ultimately vest. Compensation expense for the trustee grants, which fully vest immediately, is fully recognized upon issuance based upon the fair market value of the shares on the date of grant.

Accounting for Uncertainty in Income Taxes

We can recognize a tax benefit only if it is "more likely than not" that a particular tax position will be sustained upon examination or audit. To the extent that the "more likely than not" standard has been satisfied, the benefit associated with a tax position is measured as the largest amount that is greater than 50% likely of being recognized upon settlement. As of December 31, 2023 and 2022, we did not have any unrecognized tax benefits. We do not believe that there will be any material changes to our uncertain tax positions over the next twelve months.

We are subject to federal income tax as well as income tax of the states of Maryland, Virginia and Georgia, and the District of Columbia. However, as a REIT, we generally are not subject to income tax on our taxable income to the extent it is distributed as dividends to our shareholders.

Tax returns filed for 2020 through 2022 tax years are subject to examination by taxing authorities. We classify interest and penalties related to uncertain tax positions, if any, in our financial statements as a component of general and administrative expenses.

Derivatives

We borrow funds at a combination of fixed and variable rates. Borrowings under our revolving credit facility and term loans bear interest at variable rates. Our interest rate risk management objectives are to minimize interest rate fluctuation on long-term indebtedness and limit the impact of interest rate changes on earnings and cash flows. To achieve these objectives, from time to time, we may enter into interest rate hedge contracts such as collars, swaps, caps and treasury lock agreements in order to mitigate our interest rate risk with respect to various debt instruments. We generally do not hold or issue these derivative contracts for trading or speculative purposes. The interest rate swaps we enter into are recorded at fair value on a recurring basis. We assess the effectiveness of our cash flow hedges both at inception and on an ongoing basis. The effective portion of changes in fair value of the interest rate swaps associated with our cash flow hedges is recorded in Accumulated other comprehensive income (loss). Our cash flow hedges become ineffective if critical terms of the hedging instrument and the debt instrument, such as notional amounts, settlement dates, reset dates, calculation period and SOFR do not perfectly match. In addition, we evaluate the default risk of the counterparty by monitoring its creditworthiness. When ineffectiveness of a cash flow hedge exists, the ineffective portion of changes in fair value of the interest rate swaps associated with our cash flow hedges is recognized in earnings in the period affected.

NOTE 3: REAL ESTATE

As of December 31, 2023 and 2022, our real estate investment portfolio classified as income producing property that is held and used, at cost, consists of properties valued as follows (in thousands):

	December 31,	
	2023	2022
Residential	$ 2,249,833	$ 2,098,010
Other [(1)]	94,284	172,996
	$ 2,344,117	$ 2,271,006

(1) Consists of Watergate 600

Our results of operations are dependent on the overall economic health of our markets and residents which are affected by external economic factors, such as inflation, consumer confidence and unemployment rates, as well as changing residents and consumer requirements.

As of December 31, 2023, one property, Riverside Apartments, accounted for more than approximately 10% of total assets and more than approximately 10% of real estate rental revenue.

From time to time, we have properties under development/redevelopment and held for current or future development. The cost of our real estate portfolio under development or held for future development as of December 31, 2023 and 2022 was $31.0 million and $31.3 million, respectively.

As of December 31, 2023, we have invested $30.4 million, including the cost of acquired land, in a residential development adjacent to Riverside Apartments. During the second quarter of 2022, we paused development activities at the aforementioned property and ceased associated capitalization of interest on spending and real estate taxes, though we still consider the future completion of this development to be probable. We also continue to capitalize qualifying costs on several other projects with minor development activity necessary to ready each project for its intended use.

Acquisitions

Properties and land for development acquired during the three years ended December 31, 2023 were as follows:

Acquisition Date	Property	Type	# of Homes (unaudited)	Ending Occupancy	Contract Purchase Price (in thousands)
September 29, 2023	Elme Druid Hills	Residential	500	93.8%	$ 108,000
			500		$ 108,000
February 1, 2022	Elme Sandy Springs	Residential	389	91.3%	$ 105,586
May 5, 2022	Elme Marietta	Residential	420	90.7%	107,900
May 5, 2022	Elme Cumberland	Residential	270	91.1%	69,750
			1,079		$ 283,236
August 10, 2021	Elme Conyers	Residential	240	93.3%	$ 48,000
November 19, 2021	Elme Eagles Landing	Residential	490	89.0%	106,000
			730		$ 154,000

The results of operations from acquired operating properties are included in the consolidated statements of operations as of their acquisition dates.

The revenue and earnings of our acquisitions during their year of acquisition for the three years ended December 31, 2023 are as follows (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Real estate rental revenue	$ 2,549	$ 14,937	$ 2,262
Net loss	(1,511)	(11,126)	(1,921)

As discussed in note 2, we record the acquired physical assets (land and building) and in-place leases (absorption costs) and any other assumed liabilities by allocating the total cost of the acquisitions on a relative fair value basis.

We recorded the total cost of the above acquisitions as follows (in thousands):

	2023	2022	2021
Land	$ 25,249	$ 50,547	$ 20,914
Building	79,281	220,825	128,540
Absorption costs	3,660	7,300	4,786
Aggregate discount on assumed mortgages	—	5,042	—
Total acquisition cost	108,190	283,714	154,240
Outstanding balance on assumed mortgages	—	(76,554)	—
Total carrying amounts recorded	$ 108,190	$ 207,160	$ 154,240

The weighted average remaining life for the absorption costs is four months.

The difference in the total acquisition cost of $108.2 million for the 2023 acquisition and the cash paid for the 2023 acquisition per the consolidated statements of cash flows of $107.6 million is due to net credits received at settlement totaling $0.6 million.

The difference in the total cost of the 2022 acquisitions of $283.7 million for the 2022 acquisitions and the cash paid for the acquisitions per the consolidated statements of cash flows of $204.4 million is due to the assumption of two mortgage notes secured by Elme Marietta and Elme Cumberland for an aggregate outstanding balance of $76.6 million and credits received at settlement totaling $2.8 million. In September 2022, we extinguished the liabilities associated with the two mortgage notes though defeasance arrangements.

The difference in the total cost of the 2021 acquisitions of $154.2 million and the cash paid for the 2021 acquisitions per the consolidated statements of cash flows of $153.7 million is primarily due to credits received at settlement totaling $0.5 million.

Fair Value of In-place Leases

Balances, net of accumulated depreciation or amortization, as appropriate, of the components of the fair value of in-place leases at December 31, 2023 and 2022 were as follows (in thousands):

	December 31,					
	2023			2022		
	Gross Carrying Value	Accumulated Amortization	Net	Gross Carrying Value	Accumulated Amortization	Net
Tenant origination costs	$ 2,262	$ 281	$ 1,981	$ 11,723	$ 8,000	$ 3,723
Leasing commissions/absorption costs	67,504	60,887	6,617	63,064	56,416	6,648
Net lease intangible liabilities	13,055	10,499	2,556	13,055	9,683	3,372

Amortization of these combined components during the three years ended December 31, 2023, was as follows (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Depreciation and amortization expense	$ 4,530	$ 12,604	$ 4,378
Real estate rental revenue increase, net	(806)	(944)	(765)
	$ 3,724	$ 11,660	$ 3,613

Amortization of these combined components over the next four years is projected to be as follows (in thousands):

	Depreciation and amortization expense	Real estate rental revenue, net increase	Total
2024	$ 3,870	$ (708)	$ 3,162
2025	2,011	(710)	1,301
2026	1,698	(662)	1,036
2027	1,019	(476)	543
2028	—	—	—

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 through the date of sale.

We sold no properties in 2023 and 2022. We sold twelve office and eight retail properties for an aggregate gain of $46.4 million during the year ended December 31, 2021. The dispositions of the office and retail properties in 2021 represented a strategic shift that had a major effect on our financial results, and we accordingly reported them as discontinued operations.

We have fully transferred control of the assets associated with these disposed properties and do not have continuing involvement in the operations of these properties.

Real Estate Impairment

During 2023, we recognized an impairment charge of $41.9 million on Watergate 600 in order to reduce its carrying value to its estimated fair value, which declined due to changes in market conditions in the Washington, DC metro region office market. The estimated fair value is inherently subjective because there are few observable market transactions for similar office properties. This fair valuation fell into Level 3 in the fair value hierarchy due to its reliance on significant unobservable inputs (see note 9). In accordance with ASC 820, we estimated the fair value using a discounted cash flow model which required certain significant assumptions, including a discounted cash flow term of 5 years, an average economic occupancy of 80.5%, and a terminal capitalization rate of 7.5%.

No other properties, including assets held for development, had any recognized impairment charges during 2023. Should external or internal circumstances change requiring the need to shorten holding periods or adjust future estimated cash flows from our properties, we could be required to record additional impairment charges in the future.

Discontinued Operations

The results of the twelve office and eight retail properties sold in 2021 are classified as discontinued operations and are summarized as follows (amounts in thousands, except for share data):

	Year Ended December 31, 2021
Real estate rental revenue	$ 70,519
Expenses:	
Property operating and maintenance	(11,201)
Real estate taxes and insurance	(11,136)
Property management	(2,195)
Depreciation and amortization	(22,904)
Gain on sale of real estate, net	46,441
Income from discontinued operations	$ 69,524
Basic net income per share	$ 0.82
Diluted net income per share	$ 0.82
Capital expenditures	$ 3,316

All assets and liabilities related to the twelve office properties (the "Office Portfolio") and eight retail properties (the "Retail Portfolio") were sold as of December 31, 2021.

NOTE 4: LEASE ACCOUNTING

Leasing as a Lessee

For leases where we are the lessee, primarily in our corporate office operating lease, we recognize a right-of-use asset and a lease liability in accordance with ASC Topic 842. The right-of-use asset and associated liability is equal to the present value of the minimum lease payments, applying our incremental borrowing rate. Our borrowing rate is computed based on observable borrowing rates taking into consideration our credit quality and adjusting to a secured borrowing rate for similar assets and term. Our right-of-use asset and lease liability are recorded within Prepaid expenses and other assets and Accounts payable and other liabilities on our consolidated balance sheets, respectively.

Lease expense for the operating lease is recognized on a straight-line basis over the expected lease term and is included in "General and administrative expense."

Leasing as a Lessor

Future Minimum Rental Income

As of December 31, 2023, non-cancelable commercial operating leases provide for future minimum rental income from continuing operations as follows (in thousands):

2024	$ 16,351
2025	15,151
2026	15,084
2027	13,340
2028	6,134
Thereafter	42,636
	$ 108,696

Apartment leases are not included as the terms are generally for one year or less. Rental income under most of these commercial leases increase in future years based on agreed-upon percentages or in some instances, changes in the Consumer Price Index.

NOTE 5: MORTGAGE NOTE PAYABLE

In May 2022, we assumed a $42.8 million mortgage note in connection with the acquisition of Elme Marietta. This mortgage note bore interest at 3.36% per annum. The effective interest rate on this mortgage note was 4.50% based on quotes obtained for similar loans. We recorded the mortgage note at its estimated fair value of $40.0 million. Principal and interest were payable monthly until May 1, 2030, at which time all unpaid principal and interest were payable in full.

In May 2022, we assumed a $33.7 million mortgage note in connection with the acquisition of Elme Cumberland. This mortgage note bore interest at 2.93% per annum. The effective interest rate on this mortgage note was 4.00% based on quotes obtained for similar loans. We recorded the mortgage note at its estimated fair value of $31.5 million. Principal and interest were payable monthly until May 1, 2030, at which time all unpaid principal and interest were payable in full.

In September 2022, we extinguished the liabilities associated with both of the mortgage notes through defeasance arrangements, recognizing aggregate losses on extinguishment of debt of $4.9 million.

NOTE 6: UNSECURED LINES OF CREDIT PAYABLE

During the third quarter of 2021, we entered into an amended and restated credit agreement ("Credit Agreement") which provides for a $700 million unsecured revolving credit facility (the "Revolving Credit Facility") and the continuation of an existing $250.0 million unsecured term loan ("2018 Term Loan"). The Revolving Credit Facility has a four-year term ending in August 2025, with two six-month extension options. The Credit Agreement has an accordion feature that allows us to increase the aggregate facility to $1.5 billion, subject to the lenders' agreement to provide additional revolving loan commitments or term loans. As a result of the transaction, we recognized a loss on extinguishment of debt of $0.2 million related to the write off of unamortized loan origination costs. We incurred $4.8 million of additional loan origination costs which are amortized as interest expense over the term of the Revolving Credit Facility.

On September 27, 2021, we prepaid a $150.0 million portion of the 2018 Term Loan using proceeds from the sale of the Office Portfolio and Retail Portfolio (see note 3). As a result of the prepayment, we recognized a loss on extinguishment of debt of $0.3 million related to the write-off of unamortized loan origination costs. Simultaneous with the prepayment, we terminated five interest rate swap arrangements.

During the first quarter of 2023, we prepaid the remaining $100.0 million portion of the 2018 Term Loan and executed an amendment to the Revolving Credit Facility to convert the benchmark interest rate from LIBOR to an adjusted SOFR, with no change in the applicable interest rate margins. The Revolving Credit Facility bears interest at a rate of daily SOFR plus 0.10% plus a margin ranging from 0.70% to 1.40%. In addition, the Revolving Credit Facility requires the payment of a facility fee ranging from 0.10% to 0.30% (in each case, depending on Elme Communities' credit rating) on the $700.0 million committed revolving loan capacity, without regard to usage. As of December 31, 2023, the interest rate on the Revolving Credit Facility is based on an adjusted daily SOFR (inclusive of the 0.10% credit spread adjustment) plus 0.85% applicable margin, the daily SOFR is 5.38% and the facility fee is 0.20%.

The amount of the Revolving Credit Facility unused and available at December 31, 2023 was as follows (in thousands):

Committed capacity	$	700,000
Borrowings outstanding		(157,000)
Unused and available	$	543,000

We executed borrowings and repayments on the Revolving Credit Facility during 2023 as follows (in thousands):

Balance, December 31, 2022	$	55,000
Borrowings		322,000
Repayments		(220,000)
Balance, December 31, 2023	$	157,000

All outstanding advances for the Revolving Credit Facility are due and payable upon maturity in August 2025, unless extended pursuant to one or both of the two six-month extension options. Interest only payments are due and payable generally on a monthly basis.

For the three years ended December 31, 2023, we recognized interest expense (excluding facility fees) and facility fees as follows (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Interest expense (excluding facility fees)	$ 4,419	$ 912	$ 390
Facility fees	1,454	1,454	1,419

The Revolving Credit Facility contains and the prior unsecured credit facility that it replaced contained certain financial and non-financial covenants, all of which we have met as of December 31, 2023 and 2022. Included in these covenants are limits on our total indebtedness, secured and unsecured indebtedness and required debt service payments.

Information related to revolving credit facilities for the three years ended December 31, 2023 as follows (in thousands, except percentage amounts):

	Year Ended December 31,		
	2023	2022	2021
Total revolving credit facilities at December 31	$ 700,000	$ 700,000	$ 700,000
Borrowings outstanding at December 31	157,000	55,000	—
Weighted average daily borrowings during the year	70,578	21,636	34,803
Maximum daily borrowings during the year	164,000	67,000	79,000
Weighted average interest rate during the year	6.17 %	4.22 %	1.12 %
Weighted average interest rate on borrowings outstanding at December 31	6.26 %	5.20 %	— %

The covenants under our Credit Agreement require us to insure our properties against loss or damage in amounts customarily maintained by similar businesses or as they may be required by applicable law. The covenants for the notes require us to keep all of our insurable properties insured against loss or damage at least equal to their then full insurable value. We have an insurance policy that has no terrorism exclusion, except for non-certified nuclear, chemical and biological acts of terrorism. Our financial condition and results of operations are subject to the risks associated with acts of terrorism and the potential for uninsured losses as the result of any such acts. Effective November 26, 2002, under this existing coverage, any losses caused by certified acts of terrorism would be partially reimbursed by the United States under a formula established by federal law. Under this formula, the United States pays 85% of covered terrorism losses exceeding the statutorily established deductible paid by the insurance provider, and insurers pay 10% until aggregate insured losses from all insurers reach $100 billion in a calendar year. If the aggregate amount of insured losses under this program exceeds $100 billion during the applicable period for all insured and insurers combined, then each insurance provider will not be liable for payment of any amount which exceeds the aggregate amount of $100 billion. On December 20, 2019, The Terrorism Risk Insurance Program Reauthorization Act of 2019 was signed into law, extending the program through December 31, 2027.

NOTE 7: NOTES PAYABLE

Our unsecured notes and term loans outstanding as of December 31, 2023 and 2022 are as follows (in thousands):

	Coupon/Stated Rate	Effective Rate [(1)]	December 31, 2023	December 31, 2022	Payoff Date/ Maturity Date [(2)]
2018 Term Loan	1 Month LIBOR + 110 basis points	2.31 %	$ —	$ 100,000	1/10/2023
2023 Term Loan	1 Month SOFR + 95 basis points	4.73 %	125,000	—	1/10/2025
30-Year Unsecured Notes	7.25 %	7.36 %	50,000	50,000	2/25/2028
Green Bonds	3.44 %	4.09 %	350,000	350,000	12/29/2030
Total principal			525,000	500,000	
Premiums and discounts, net			(94)	(116)	
Deferred issuance costs, net			(2,561)	(2,525)	
Total			$ 522,345	$ 497,359	

(1) For fixed rate notes, the effective rate represents the yield on issuance date, including the effects of discounts on the notes. For variable rate notes, the effective rate represents the rate as fixed by interest rate derivatives (see note 8).

(2) No principal amounts are due prior to maturity.

During 2023, we executed a $125.0 million unsecured term loan ("2023 Term Loan") with an interest rate of SOFR (subject to a credit spread adjustment of 10 basis points) plus a margin of 95 basis points (subject to adjustment depending on Elme Communities' credit rating). The 2023 Term Loan has a two-year term ending in January 2025, with two one year extension options. We used the proceeds to prepay the 2018 Term Loan in full and a portion of our borrowings under our unsecured credit facility.

In August 2021, we redeemed $300.0 million of our existing unsecured notes that were scheduled to mature in 2022. As a result of the prepayment, we recognized a loss on extinguishment of debt of $12.3 million comprised of a prepayment penalty of $11.9 million and the write-off of unamortized loan origination costs of $0.4 million.

On September 29, 2020, we entered into a note purchase agreement to issue $350.0 million aggregate principal amount of 3.44% senior unsecured 10-year notes payable (the "Green Bonds"). The effective interest rate under the Green Bonds, including amortization of the associated interest rate swaps (see note 8), is 4.09%. The closing and full funding of the Green Bonds occurred on December 17, 2020. We incurred $2.6 million of debt issuance costs associated with the Green Bonds which are reported on our consolidated balance sheets as an offset to their related debt. The Green Bonds are senior unsecured obligations of Elme Communities and rank equal in right to payment with all other senior unsecured indebtedness of Elme Communities.

The proceeds of the sale of the Green Bonds were used to finance or refinance recently completed and future green building and energy efficiency, sustainable water and wastewater management and renewable energy projects.

The note purchase agreement contains customary financial covenants, including a maximum total leverage ratio, a maximum secured leverage ratio, a minimum fixed charge coverage ratio, and a maximum unencumbered leverage ratio. The note purchase agreement also contains restrictive covenants that, among other things, restrict the ability of Elme Communities and its subsidiaries to enter into transactions with affiliates, consolidate or merge or transfer or lease all or substantially all of its assets, create liens, make dividends and distributions if an event of default exists, or substantially change the general nature of our business. Such financial and restrictive covenants are substantially similar to the corresponding covenants contained in our Credit Agreement.

The note purchase agreement also contains customary events of default, including payment defaults, cross defaults with certain other indebtedness, breaches of certain covenants and bankruptcy events. In the case of an event of default, we will generally be prohibited from paying any dividends, subject to certain exceptions including payment of dividends necessary to maintain REIT status, and the Purchasers may, among other remedies, accelerate the payment of all obligations. In the event of a change in control of Elme Communities, we must offer to prepay the Green Bonds at par.

The required principal payments on the unsecured notes and term loans as of December 31, 2023 are as follows (in thousands):

2024	$ —
2025	125,000
2026	—
2027	—
2028	50,000
Thereafter	350,000
	$ 525,000

Interest on these notes is payable semi-annually, except for the term loan, for which interest is payable monthly. These notes contain certain financial and non-financial covenants, all of which we have met as of December 31, 2023. Included in these covenants is the requirement to maintain a minimum level of unencumbered assets, as well as limits on our total indebtedness, secured indebtedness and required debt service payments.

NOTE 8: DERIVATIVE INSTRUMENTS

We had one interest rate swap arrangement with a notional amount of $100.0 million that had effectively fixed the remaining $100.0 million portion of the 2018 Term Loan prior to the prepayment. During the first quarter of 2023, we prepaid the 2018 Term Loan using proceeds from the $125.0 million 2023 Term Loan (see note 7). Subsequent to this transaction, our interest rate swap arrangement effectively fixed the interest rate on a $100.0 million portion of the 2023 Term Loan through the interest rate swap arrangement's expiration date of July 21, 2023.

During the first quarter of 2023, we entered into two interest rate swap arrangements with an aggregate notional amount of $125.0 million that effectively fixed the interest at 4.73% for the 2023 Term Loan beginning on July 21, 2023 through the 2023 Term Loan's maturity date of January 10, 2025.

The interest rate swap arrangement is recorded at fair value in accordance with GAAP, based on discounted cash flow methodologies and observable inputs. We record the effective portion of changes in fair value of the cash flow hedge in Other comprehensive income (loss). We assess the effectiveness of a cash flow hedge both at inception and on an ongoing basis. If a cash flow hedge is no longer expected to be effective, hedge accounting is discontinued. Hedge ineffectiveness of our cash flow hedges is recorded in earnings.

The fair values of the interest rate swap as of December 31, 2023 and 2022, were as follows (in thousands):

				Fair Value Derivative Liabilities December 31,	
Derivative Instrument	**Aggregate Notional Amount**	**Effective Date**	**Maturity Date**	**2023**	**2022**
Interest rate swap	$ 100,000	March 31, 2017	July 21, 2023	$ —	$ 1,998
Interest rate swap	75,000	July 21, 2023	January 10, 2025	740	—
Interest rate swap	50,000	July 21, 2023	January 10, 2025	494	—
				$ 1,234	$ 1,998

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 current interest rate swaps have been effective since inception. The gains or losses on the effective swaps are recognized in other comprehensive income, as follows (in thousands):

	Year Ending December 31,		
	2023	**2022**	**2021**
Unrealized (gain) loss on interest rate hedges	$ (764)	$ 2,819	$ 3,673

Amounts reported in Accumulated other comprehensive loss related to effective cash flow hedges will be reclassified to interest expense as interest payments are made on our variable-rate debt. During the next twelve months, we estimate that an additional $1.2 million related to our two outstanding interest rate swap arrangements will be reclassified as a decrease to interest expense.

The losses reclassified from Accumulated other comprehensive income into interest expense for the three years ended December 31, 2023, were as follows (in thousands):

	Year Ending December 31,		
	2023	2022	2021
Loss reclassified from accumulated other comprehensive income (loss) into interest expense	$ 2,039	$ 2,039	$ 2,039

During the next twelve months, we estimate that an additional $2.0 million related to the previously settled interest rate swap arrangements will be reclassified as an increase to interest expense.

We have agreements with each of our derivative counterparties that contain a provision whereby we could be declared in default on our derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to our default on the indebtedness. As of December 31, 2023, the fair value of derivative assets, including accrued interest, was $1.2 million and we did not have any derivatives in a liability position. As of December 31, 2023, we have not posted any collateral related to these agreements.

Derivative instruments expose us to credit risk in the event of non-performance by the counterparty under the terms of the interest rate hedge agreement. We believe that we minimize our credit risk on these transactions by dealing with major, creditworthy financial institutions. We monitor the credit ratings of counterparties and our exposure to any single entity, thus minimizing our credit risk concentration.

NOTE 9: FAIR VALUE DISCLOSURES

Assets and Liabilities Measured at Fair Value

For assets and liabilities measured at fair value on a recurring basis, quantitative disclosures about the fair value measurements are required to be disclosed separately for each major category of assets and liabilities, as follows:

Level 1: Quoted prices in active markets for identical assets
Level 2: Significant other observable inputs
Level 3: Significant unobservable inputs

The only assets or liabilities we had at December 31, 2023 and 2022 that are recorded at fair value on a recurring basis are the assets held in the Supplemental Executive Retirement Plan ("SERP"), which primarily consists of investments in mutual funds, and the interest rate swaps (see note 8).

We base the valuations related to the SERP on assumptions derived from significant other observable inputs and accordingly these valuations fall into Level 2 in the fair value hierarchy.

The valuation of the interest rate swaps is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each interest rate swap. This analysis reflects the contractual terms of the interest rate swaps, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. To comply with the provisions of ASC 820, we incorporate credit valuation adjustments in the fair value measurements to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk. These credit valuation adjustments were concluded to not be significant inputs for the fair value calculations for the periods presented. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as the posting of collateral, thresholds, mutual puts and guarantees. The valuation of interest rate swaps falls into Level 2 in the fair value hierarchy.

The fair values of these assets at December 31, 2023 and 2022 were as follows (in thousands):

	December 31, 2023				December 31, 2022			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:								
SERP	$ 1,984	$ —	$ 1,984	$ —	$ 2,142	$ —	$ 2,142	$ —
Interest rate swaps	1,234	—	1,234	—	1,998	—	1,998	—

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets not measured at fair value on an ongoing basis but subject to fair value adjustments only in certain circumstances, such as when there is evidence of impairment, are measured at fair value on a nonrecurring basis. In the third quarter of 2023, we measured the fair value of Watergate 600 using Level 3 inputs as there was evidence of impairment (see note 3).

Financial Assets and Liabilities Not Measured at Fair Value

The following disclosures of estimated fair value were determined by management using available market information and established valuation methodologies, including discounted cash flow models. Many of these estimates involve significant judgment. The estimated fair value disclosed may not necessarily be indicative of the amounts we could realize on disposition of the financial instruments. The use of different market assumptions or estimation methodologies could have an effect on the estimated fair value amounts. In addition, fair value estimates are made at a point in time and thus, estimates of fair value subsequent to December 31, 2023 may differ significantly from the amounts presented.

Below is a summary of significant methodologies used in estimating fair values and a schedule of fair values at December 31, 2023.

Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents and restricted cash include cash and commercial paper with original maturities of less than 90 days, which are valued at the carrying value, which approximates fair value due to the short maturity of these instruments (Level 1 inputs).

Debt

Mortgage notes payable consist of instruments in which certain of our real estate assets are used for collateral. We estimate the fair value of the mortgage notes payable by discounting the contractual cash flows at a rate equal to the relevant treasury rates (with respect to the timing of each cash flow) plus credit spreads estimated through independent comparisons to real estate assets or loans with similar characteristics. Line of credit payable consist of bank facilities which we use for various purposes including working capital, acquisition funding and capital improvements. The line of credit advances and term loans with floating interest rates are priced at a specified rate plus a spread. We estimate the market value based on a comparison of the spreads of the advances to market given the adjustable base rate. We estimate the fair value of the notes payable by discounting the contractual cash flows at a rate equal to the relevant treasury rates (with respect to the timing of each cash flow) plus credit spreads derived using the relevant securities' market prices. We classify these fair value measurements as Level 3 as we use significant unobservable inputs and management judgment due to the absence of quoted market prices.

As of December 31, 2023 and 2022, the carrying values and estimated fair values of our financial instruments were as follows (in thousands):

	December 31,			
	2023		2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$ 5,984	$ 5,984	$ 8,389	$ 8,389
Restricted cash	2,554	2,554	1,463	1,463
Line of credit payable	157,000	157,000	55,000	55,000
Notes payable	522,345	466,668	497,359	454,564

NOTE 10: SHARE-BASED COMPENSATION

Elme Communities maintains short-term and long-term incentive plans that allow for share-based awards to officers and non-officer employees. Share-based awards are provided to officers and non-officer employees, as well as trustees, under the Washington Real Estate Investment Trust 2016 Omnibus Incentive Plan which allows for awards in the form of restricted shares, restricted share units, options, and other awards up to an aggregate of 2,400,000 shares over the ten-year period in which the plan will be in effect. Restricted share units are converted into shares of our stock upon full vesting through the issuance of new shares. There were no options issued or outstanding as of December 31, 2023 and 2022.

On February 14, 2020, the board of trustees adopted an Amended and Restated Executive Officer Short-Term Incentive Plan (the "Officer STIP") and an Amended and Restated Executive Officer Long-Term Incentive Plan (the "Officer LTIP"). Upon adoption by the board of trustees, both plans became effective for the performance periods beginning January 1, 2020.

Officer STIP

Under the Officer STIP, as revised, all named executive officers will have the opportunity to receive an annual cash bonus based on the achievement of certain performance measures that will be established for each performance period. Each year, the Compensation Committee will establish the threshold, target and high performance goals for each performance measure, as well as the weighting attributable to each such performance measure, with the aggregate weighting for all such performance measures to total 100%. Such performance measures will consist of one or more financial performance measures and, if determined by the Compensation Committee, individual performance measures.

Upon or following completion of a performance period, the degree of achievement of each performance measure will be determined by the Compensation Committee. The degree of achievement of any individual financial performance measures will be determined by the Compensation Committee in its discretion with respect to the Chief Executive Officer, and by the Chief Executive Officer or other immediate supervisor in his or her discretion with respect to all other participants (subject to final approval by the Compensation Committee), and the Compensation Committee will evaluate the degree of achievement of the individual performance measures on a scale of below 1 (below threshold), 1 (threshold), 2 (target) or 3 (high) or any fractional number between 1 and 3.

Each participant's total award under the Officer STIP with respect to a performance period will be stated as a percentage of the participant's annual base salary determined as of the first day of that performance period, which percentage will depend upon the participant's position and the degree of achievement of threshold, target, and high performance goals for the performance period. The percentages for the performance period beginning January 1, 2023 are as set forth in the table below:

	Threshold	*Target*	*High*
President and Chief Executive Officer	63%	125%	188%
Chief Financial Officer	41%	75%	133%
Chief Operating Officer [(1)]	23%	45%	76%
Chief Information Officer	35%	65%	115%
Chief Administrative Officer [(1)]	28%	54%	96%

(1) For both the Chief Operating Officer and the Chief Administrative Officer, the percentages include the effects of prorations for the amount of time in 2023 that they were in their respective positions.

If a Change in Control (as defined in the Officer STIP) occurs during a performance period while the participant is employed, the participant will receive a prorated award under the Officer STIP calculated based on the actual levels of achievement of the prorated performance goals as of the date of the Change in Control.

Bonuses payable under the short-term incentive plans for non-executive officers and staff are payable 100% in cash.

Officer LTIP

Under the Officer LTIP, as revised, all named executive officers will have the opportunity to receive awards based on (i) the achievement of performance measures, which will be established for each performance period, and (ii) continued employment with the Company. The aggregate weighting for the performance measures and the time-based measures, as determined by the Compensation Committee, will total 100%. The performance measures will consist of one or more shareholder return measures and one or more strategic measures. The awards earned under the Officer LTIP, if any, are payable in our common shares of beneficial interest. Each participant's total award under the Officer LTIP with respect to a performance period will be stated as a percentage of the participant's annual base salary determined as of the beginning of that performance period. The percentages for the performance period beginning January 1, 2023 are as set forth in the table below:

	Threshold	*Target*	*High*
President and Chief Executive Officer	198%	275%	440%
Chief Financial Officer	95%	135%	196%
Chief Operating Officer (1)	110%	157%	231%
Chief Information Officer	100%	143%	207%
Chief Administrative Officer (1)	65%	92%	134%

(1) For both the Chief Operating Officer and the Chief Administrative Officer, the percentages include the effects of prorations for the amount of time in 2023 that they were in their respective positions.

Any time-based awards under the Officer LTIP will be subject to a three-year vesting schedule, with any award vesting in one-third increments on December 15 of each year of the applicable performance period if the participant remains employed by the Company on each of such dates. The Officer LTIP provides that following a performance period, 100% of any performance-based award will vest immediately upon grant.

Each year, the Compensation Committee will establish the threshold, target and high performance goals for each performance measure. Upon or following completion of a performance period, the degree of achievement of each performance measure will be determined by the Compensation Committee in its discretion.

If a Change in Control (as defined in the Officer LTIP) occurs during a performance period while the participant is employed, the Officer LTIP provides that all time-based awards which are unvested will become vested, and the participant will receive a pro-rated portion of the shareholder return measure-based awards and the strategic measure-based awards will be calculated at target.

We use a binomial model which employs the Monte Carlo method as of the grant date to determine the fair value of the Officer LTIP awards. For three-year performance periods commencing on or after January 1, 2023, the market performance condition is based on total shareholder return relative to the FTSE Nareit Residential Index (60% weighting) and a defined population of peer companies (40% weighting). For three-year performance period commencing on January 1, 2022, the market condition performance measurement is based on total shareholder return relative to a defined population of peer companies (100% weighting). For three-year performance period commencing on January 1, 2021, the market condition performance measurement is based on total shareholder return relative to a defined population of peer companies (50% weighting), relative to the FTSE Nareit Residential Index (42.5% weighting) and the FTSE Office Index (7.5% weighting). The model evaluates the awards for changing total shareholder return over the term of the vesting, relative to the peer companies and relative to the FTSE indexes, and uses random simulations that are based on past stock characteristics as well as dividend growth and other factors for Elme Communities and each of the peer companies.

The assumptions used to value the TSR portion of the officer LTIP awards were as follows:

	2023 Awards	2022 Awards	2021 Awards
Expected volatility [1]	32.3 %	35.2 %	35.5 %
Risk-free interest rate [2]	4.2 %	1.7 %	0.3 %
Expected term [3]	3 years	3 years	3 years
Share price at grant date	$19.04	$24.54	$23.20

(1) Expected volatility based upon historical volatility of our daily closing share price.
(2) Risk-free interest rate based on U.S. treasury constant maturity bonds on the measurement date with a maturity equal to the market condition performance period.
(3) Expected term based on the market condition performance period.

The calculated grant date fair value as a percentage of base salary for the officers for the three-year performance period that commenced in 2023 ranged from approximately 27% to 137% for the 60% of the LTIP based on TSR relative to the FTSE Nareit Residential Index and from approximately 32% to 159% for the 40% of the LTIP based on TSR relative to a defined population of peer companies.

The calculated grant date fair value as a percentage of base salary for the officers for the three-year performance period that commenced in 2022 ranged from approximately 32% to 248% for the 100% of the LTIP based on TSR relative to a defined population of peer companies.

The calculated grant date fair value as a percentage of base salary for the officers for the three-year performance period that commenced in 2021 ranged from approximately 37% to 78% for the 50% of the LTIP based on TSR relative to a defined population of peer companies and from 38% to 80% for the 50% of the LTIP based on TSR relative to the FTSE Nareit Diversified Index.

During 2022, our chief executive officer was granted a one-time equity award of 100,000 restricted shares. None of the restricted shares vest until the earlier of the fifth anniversary of the grant date or when our chief executive officer become retirement-eligible, at which time 100% of the restricted shares will vest, subject to Mr. McDermott's continued employment with Elme Communities until such vesting date.

Our non-executive officers and other employees earn restricted share unit awards under a long-term incentive plan for non-executive officers and staff based upon various percentages of their salaries and annual performance calculations. The restricted share unit awards vest ratably over three years beginning on the December 15 following the grant date based upon continued employment. We recognize compensation expense for these awards according to a graded vesting schedule over the three-year requisite service period.

Restricted share awards made to retirement-eligible employees fully vest on the grant date. Employees are considered retirement-eligible when they are both over the age of 55 and have been employed by Elme Communities for at least 20 years, or over the age of 65. We fully recognize compensation expense for such awards as of the grant date.

Trustee Awards

We award share based compensation to our trustees in the form of restricted shares which vest immediately and are restricted from sale for the period of the trustees' service. The value of share-based compensation for each trustee was $100,000 for each of three years ended December 31, 2023.

Total Compensation Expense

Total compensation expense recognized in the consolidated financial statements for each of the three years ended December 31, 2023 for all share based awards was $5.5 million, $8.0 million and $8.6 million, respectively, net of capitalized share-based compensation expense of $0.1 million, $0.2 million and $0.3 million, respectively.

Restricted Share Awards with Performance and Service Conditions

The activity for the three years ended December 31, 2023 related to our restricted share awards, excluding those subject to market conditions, was as follows:

	Shares	Weighted Average Grant Fair Value
Unvested at December 31, 2020	306,995	$ 30.96
Granted	238,134	23.53
Vested during year	(277,967)	26.39
Forfeited	(7,467)	26.73
Unvested at December 31, 2021	259,695	29.16
Granted	408,606	22.33
Vested during year	(408,118)	27.13
Forfeited	(17,814)	25.31
Unvested at December 31, 2022	242,369	21.35
Granted	410,928	18.40
Vested during year	(367,109)	19.79
Forfeited	(28,453)	20.85
Unvested at December 31, 2023	257,735	18.89

The total fair value of share grants vested for each of the three years ended December 31, 2023 was $7.3 million, $11.1 million and $7.6 million, respectively.

As of December 31, 2023, the total compensation cost related to non-vested share awards not yet recognized was $4.2 million, which we expect to recognize over a weighted average period of 25 months.

Unrestricted Shares with Market Conditions

Share-based awards with market conditions under the LTIP were awarded in 2023, 2022 and 2021 with fair market values, as determined using a Monte Carlo simulation, as follows (in thousands):

	2023 Awards (1)	2022 Awards (1)	2021 Awards (1)
Relative Peer TSR	$ 831	$ 1,480	$ 951
Absolute/Index TSR (2)	1,048	N/A	971

The unamortized value of these awards with market conditions as of December 31, 2023 was as follows (in thousands):

	2023 Awards (1)	2022 Awards (1)	2021 Awards (1)
Relative Peer TSR	$ 592	$ 385	$ —
Absolute/Index TSR (2)	743	N/A	—

(1) The 2023, 2022 and 2021 Awards were granted under the Officer LTIP, whereby all of the shares vest immediately at the end of the three-year performance period.

(2) The performance conditions for the 2023 awards were evaluated based on 60% on TSR relative to the FTSE Nareit Residential Index and 40% based on TSR relative to a defined populations of peer companies. The performance conditions for the 2022 awards were evaluated based on 100% on TSR relative to a defined population of peer companies. The performance conditions for the 2021 awards were evaluated based on 50% on TSR relative to a defined population of peer companies and 50% on TSR relative to the FTSE Multifamily and Office indexes.

NOTE 11: OTHER BENEFIT PLANS

We have a Retirement Savings Plan (the "401(k) Plan"), which permits all eligible employees to defer a portion of their compensation in accordance with the Code. Under the 401(k) Plan, we may make discretionary contributions on behalf of eligible employees. For each of the three years ended December 31, 2023, we made contributions to the 401(k) plan of $0.6 million, $0.3 million and $0.4 million, respectively.

We have adopted non-qualified deferred compensation plans for the officers and members of the board of trustees. The plans allow for a deferral of a percentage of annual cash compensation and trustee fees. The plans are unfunded, and payments are to be made out of the general assets of Elme Communities. The deferred compensation liability was $0.1 million and $0.2 million at December 31, 2023 and 2022, respectively.

In November 2005, the board of trustees approved the establishment of a SERP for the benefit of officers. This is a defined contribution plan under which, upon a participant's termination of employment from Elme Communities for any reason other than discharge for cause, the participant will be entitled to receive a benefit equal to the participant's accrued benefit times the participant's vested interest. We account for this plan in accordance with ASC 710-10 and ASC 320-10, whereby the investments are reported at fair value, and unrealized holding gains and losses are included in earnings. At December 31, 2023 and 2022, the accrued benefit liability was $2.0 million and $2.1 million, respectively. For each of the three years ended December 31, 2023, we recognized current service cost of $0.3 million, $0.2 million and $0.2 million, respectively.

NOTE 12: EARNINGS PER COMMON SHARE

We determine "Basic earnings per share" using the two-class method as our unvested restricted share awards and units have non-forfeitable rights to dividends and are therefore considered participating securities. We compute basic earnings per share by dividing net income less the allocation of undistributed earnings to unvested restricted share awards and units by the weighted-average number of common shares outstanding for the period.

We also determine "Diluted earnings per share" as the more dilutive of the two-class method or the treasury stock method with respect to the unvested restricted share awards. We further evaluate any other potentially dilutive securities at the end of the period and adjust the basic earnings per share calculation for the impact of those securities that are dilutive. Our dilutive earnings per share calculation includes the dilutive impact of operating partnership units under the if-converted method and our share based awards with performance conditions prior to the grant date and all market condition awards under the contingently issuable method.

The computation of basic and diluted earnings per share for the three years ended December 31, 2023 was as follows (in thousands, except per share data):

	Year Ended December 31,		
	2023	**2022**	**2021**
Numerator:			
Loss from continuing operations	$ (52,977)	$ (30,868)	$ (53,140)
Allocation of earnings to unvested restricted share awards	(255)	(232)	(393)
Adjusted loss from continuing operations	(53,232)	(31,100)	(53,533)
Income from discontinued operations, including gain on sale of real estate	—	—	69,524
Adjusted net (loss) income	$ (53,232)	$ (31,100)	$ 15,991
Denominator:			
Weighted average shares outstanding – basic and diluted	87,735	87,388	84,544
Earnings per common share, basic:			
Continuing operations	$ (0.61)	$ (0.36)	$ (0.63)
Discontinued operations	—	—	0.82
Basic net (loss) income per common share [(1)]	$ (0.61)	$ (0.36)	$ 0.19
Earnings per common share, diluted:			
Continuing operations	$ (0.61)	$ (0.36)	$ (0.63)
Discontinued operations	—	—	0.82
Diluted net (loss) income per common share [(1)]	$ (0.61)	$ (0.36)	$ 0.19
Dividends declared per common share	$ 0.72	$ 0.68	$ 0.94

(1) Earnings per share may not sum due to rounding

NOTE 13: COMMITMENTS AND CONTINGENCIES

Development Commitments

At December 31, 2023, we had no committed contracts outstanding with third parties in connection with our development and redevelopment projects.

Litigation

We are involved from time to time in various legal proceedings, lawsuits, examinations by various tax authorities and claims that have arisen in the ordinary course of business. Management believes that the resolution of any such current matters will not have a material adverse effect on our financial condition or results of operations.

NOTE 14: SEGMENT INFORMATION

We operate in a single reportable segment which includes the ownership, development, redevelopment and acquisition of apartment communities. Within the residential segment, we do not distinguish or group our consolidated operations based on size (only one community, Riverside Apartments, comprises more than 10% of consolidated revenues), type (all assets in the segment are residential) or geography (all but six communities are within the Washington, DC metro region). Further, our apartment communities have similar long-term economic characteristics and provide similar products and services to our residents. As a result, our operating properties are aggregated into a single reportable segment: residential.

Prior to the end of the second quarter of 2021, we had two reportable segments: office and residential. During the third quarter of 2021, we closed on the sales of the Office Portfolio and the Retail Portfolio (see note 3), and following such sales, we have one remaining office property, Watergate 600, which does not meet the criteria for a reportable segment and has been classified within "Other" on our segment disclosure tables.

We evaluate performance based upon net operating income ("NOI") of the combined properties in the segment. Our reportable operating segment consolidates similar properties. GAAP requires that segment disclosures present the measure(s) used by the chief operating decision maker for purposes of assessing each segment's performance. NOI is a key measurement of our segment profit and loss and is defined as real estate rental revenue less real estate expenses.

Real estate rental revenue as a percentage of the total for each of the reportable operating segments for the three years ended December 31, 2023 was as follows:

	Year Ended December 31,		
	2023	2022	2021
Multifamily	92 %	91 %	89 %
Other	8 %	9 %	11 %

The percentage of income producing real estate assets classified as held and used, at cost, for each of the reportable operating segments as of December 31, 2023 and 2022 was as follows:

	2023	2022
Multifamily	96 %	92 %
Other	4 %	8 %

The following tables present revenues, net operating income, capital expenditures and total assets for the three years ended December 31, 2023 from these segments, and reconciles net operating income of reportable segments to net (loss) income as reported (in thousands):

	Twelve Months Ended December 31, 2023		
	Residential	Other [1]	Consolidated
Real estate rental revenue	$ 209,311	$ 18,600	$ 227,911
Real estate expenses	74,535	5,295	79,830
Net operating income	$ 134,776	$ 13,305	$ 148,081
Property management expenses			(8,108)
General and administrative expenses			(25,887)
Transformation costs			(6,339)
Depreciation and amortization			(88,950)
Interest expense			(30,429)
Loss on extinguishment of debt			(54)
Other income			569
Real estate impairment			(41,860)
Net loss			$ (52,977)
Capital expenditures	$ 37,782	$ 844	$ 38,626
Total assets	$ 1,768,426	$ 131,602	$ 1,900,028

	Twelve Months Ended December 31, 2022		
	Residential	Other [1]	Consolidated
Real estate rental revenue	$ 190,500	18,880	$ 209,380
Real estate expenses	68,735	5,266	74,001
Net operating income	$ 121,765	$ 13,614	$ 135,379
Property management expenses			(7,436)
General and administrative expenses			(28,258)
Transformation costs			(9,686)
Depreciation and amortization			(91,722)
Interest expense			(24,940)
Loss on extinguishment of debt			(4,917)
Other income			712
Net loss			$ (30,868)
Capital expenditures	$ 35,081	$ 3,175	$ 38,256
Total assets	$ 1,691,176	$ 181,430	$ 1,872,606

	Twelve Months Ended December 31, 2021		
	Residential	Other [1], [2]	Consolidated
Real estate rental revenue	$ 150,965	$ 18,186	$ 169,151
Real estate expenses	55,527	5,255	60,782
Net operating income	$ 95,438	$ 12,931	$ 108,369
Property management expenses			(6,133)
General and administrative expenses			(27,538)
Transformation costs			(6,635)
Depreciation and amortization			(72,656)
Interest expense			(34,063)
Loss on interest rate derivatives			(5,866)
Loss on extinguishment of debt			(12,727)
Other income			4,109
Discontinued operations:			
Income from properties sold or held for sale			23,083
Gain on sale of real estate			46,441
Net income			$ 16,384
Capital expenditures	$ 27,953	$ 4,506	$ 32,459
Total assets	$ 1,455,328	$ 420,666	$ 1,875,994

(1) Other represents Watergate 600, an office property that does not meet the qualitative or quantitative criteria for a reportable segment.
(2) Total capital expenditures include office and retail properties classified as discontinued operations.

NOTE 15: SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

While the Company previously owned a combination of commercial and residential assets, we disposed of all but one of our commercial assets in 2021. These commercial assets are classified as discontinued operations as of December 31, 2023.

Unaudited financial data by quarter in each of the years ended December 31, 2023 and 2022 were as follows (in thousands, except for per share data):

	Quarter[1]			
	First	Second	Third	Fourth
2023				
Real estate rental revenue	$ 55,809	$ 56,599	$ 56,651	$ 58,852
Loss from continuing operations	$ (3,643)	$ (2,611)	$ (43,618)	$ (3,105)
Net loss	$ (3,643)	$ (2,611)	$ (43,618)	$ (3,105)
Loss from continuing operations per share				
Basic	$ (0.04)	$ (0.03)	$ (0.50)	$ (0.04)
Diluted	$ (0.04)	$ (0.03)	$ (0.50)	$ (0.04)
Net loss per share				
Basic	$ (0.04)	$ (0.03)	$ (0.50)	$ (0.04)
Diluted	$ (0.04)	$ (0.03)	$ (0.50)	$ (0.04)
2022				
Real estate rental revenue	$ 47,804	$ 51,380	$ 54,603	$ 55,593
Loss from continuing operations	$ (7,724)	$ (8,874)	$ (10,739)	$ (3,531)
Net loss	$ (7,724)	$ (8,874)	$ (10,739)	$ (3,531)
Loss from continuing operations per share				
Basic	$ (0.09)	$ (0.10)	$ (0.12)	$ (0.04)
Diluted	$ (0.09)	$ (0.10)	$ (0.12)	$ (0.04)
Net loss per share				
Basic	$ (0.09)	$ (0.10)	$ (0.12)	$ (0.04)
Diluted	$ (0.09)	$ (0.10)	$ (0.12)	$ (0.04)

(1) With regard to per share calculations, the sum of the quarterly results may not equal full year results due to rounding.

NOTE 16: SHAREHOLDERS' EQUITY

On October 26, 2023, the Board authorized and approved a share repurchase program of up to $50.0 million of the Company's common shares of beneficial interest over a period of two years, subject to any applicable limitations or restrictions set forth in our existing credit facility and other debt agreements. The share repurchase program is scheduled to expire on October 25, 2025, unless extended by the Board.

On February 17, 2021, we entered into separate amendments to each of our existing equity distribution agreements ("Original Equity Distribution Agreements") with each of Wells Fargo Securities, LLC, BNY Mellon Capital Markets, LLC, Capital One Securities, Inc., Citigroup Global Markets Inc., Goldman Sachs & Co. LLC, J.P. Morgan Securities LLC, KeyBanc Capital Markets Inc. and Truist Securities, Inc. (f/k/a SunTrust Robinson Humphrey, Inc.), each dated May 4, 2018 (collectively, as amended, the "Equity Distribution Agreements"). Also on February 17, 2021, we entered into a separate equity distribution agreement with BTIG, LLC on the same terms as the Amended Equity Distribution Agreements (the "BTIG Equity Distribution Agreement"). On September 22, 2021, BTIG, LLC notified us that it was terminating the BTIG Equity Distribution Agreement, effective as of September 27, 2021. Pursuant to the Equity Distribution Agreements, we may sell, from time to time, up to an aggregate price of $550.0 million of our common shares of beneficial interest, $0.01 par value per share. Issuances of our common shares are made at market prices prevailing at the time of issuance. We may use net proceeds from the issuance of common shares under this program for general business purposes, including, without limitation, working capital, the acquisition, renovation, expansion, improvement, development or redevelopment of income producing properties or the repayment of debt. Our issuances and net proceeds on the Equity Distribution Agreements in 2022 and 2021 and the Original Equity Distribution Agreements in 2021 for the three years ended December 31, 2023 were as follows (in thousands, except per share data):

	Year Ended December 31,		
	2023	2022	2021
Issuance of common shares	—	1,032	1,636
Weighted average price per share	$ —	$ 26.27	$ 25.44
Net proceeds	$ —	$ 26,849	$ 40,462

We have a dividend reinvestment program, whereby shareholders may use their dividends and optional cash payments to purchase common shares. The common shares sold under this program may either be common shares issued by us or common shares purchased in the open market. Net proceeds under this program are used for general corporate purposes.

Our issuances and net proceeds on the dividend reinvestment program for the three years ended December 31, 2023 were as follows (in thousands, except per share data):

	Year Ended December 31,		
	2023	2022	2021
Issuance of common shares	28	47	75
Weighted average price per share	$ 17.64	$ 22.40	$ 23.37
Net proceeds	$ 497	$ 1,030	$ 1,744

NOTE 17: DEFERRED COSTS

As of December 31, 2023 and 2022, deferred leasing costs and deferred leasing incentives were included in prepaid expenses and other assets as follows (in thousands):

	December 31,					
	2023			2022		
	Gross Carrying Value	Accumulated Amortization	Net	Gross Carrying Value	Accumulated Amortization	Net
Deferred leasing costs	$ 9,048	$ 5,537	$ 3,511	$ 8,992	$ 5,132	$ 3,860

Amortization, including write-offs, of deferred leasing costs and deferred leasing incentives for the three years ended December 31, 2023 were as follows (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Deferred leasing costs amortization	$ 351	$ 406	$ 535

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 AND 2021
(IN THOUSANDS)

	Balance at Beginning of Year	Additions Charged to Expenses	Net Recoveries	Balance at End of Year
Valuation allowance for deferred tax assets				
2023	$ 1,399	$ —	$ —	$ 1,399
2022	$ 1,392	$ 7	$ —	$ 1,399
2021	$ 1,402	$ —	$ (10)	$ 1,392

SCHEDULE III

Properties	Location	Initial Cost (a)		Net Improvements (Retirement) since Acquisition	Gross Amounts at Which Carried at December 31, 2023			Accumulated Depreciation at December 31, 2023	Year of Construction	Date of Acquisition	Depreciation Life (d)
		Land	Buildings and Improvements		Land	Buildings and Improvements	Total (c)				
Residential Properties											
3801 Connecticut Avenue	Washington, DC	$ 420,000	$ 2,678,000	$ 23,494,000	$ 420,000	$ 26,172,000	$ 26,592,000	$ 18,112,000	1951	Jan 1963	30 years
Roosevelt Towers	Virginia	336,000	1,996,000	14,761,000	336,000	16,757,000	17,093,000	13,970,000	1964	May 1965	40 years
Park Adams	Virginia	287,000	1,654,000	17,029,000	287,000	18,683,000	18,970,000	13,563,000	1959	Jan 1969	35 years
The Ashby at McLean (f)	Virginia	4,356,000	17,102,000	35,968,000	4,356,000	53,070,000	57,426,000	37,011,000	1982	Aug 1996	30 years
Bethesda Hill Apartments	Maryland	3,900,000	13,412,000	18,064,000	3,900,000	31,476,000	35,376,000	24,995,000	1986	Nov 1997	30 years
Bennett Park	Virginia	2,861,000	917,000	83,551,000	4,774,000	82,555,000	87,329,000	52,189,000	2007	Feb 2001	28 years
The Clayborne	Virginia	269,000	—	32,103,000	699,000	31,673,000	32,372,000	20,797,000	2008	Jun 2003	26 years
Kenmore Apartments	Washington, DC	28,222,000	33,955,000	22,258,000	28,222,000	56,213,000	84,435,000	26,795,000	1948	Sep 2008	30 years
The Maxwell	Virginia	12,787,000	—	38,993,000	12,850,000	38,930,000	51,780,000	17,137,000	2014	Jun 2011	30 years
Yale West	Washington, DC	14,684,000	62,069,000	2,530,000	14,684,000	64,599,000	79,283,000	22,468,000	2011	Feb 2014	30 years
The Paramount (f)	Virginia	8,568,000	38,716,000	4,554,000	8,568,000	43,270,000	51,838,000	17,598,000	1984	Oct 2013	30 years
The Wellington	Virginia	30,548,000	116,563,000	25,251,000	30,548,000	141,814,000	172,362,000	44,342,000	1960	Jul 2015	30 years
Trove	Virginia	15,000,000	—	118,826,000	15,000,000	118,826,000	133,826,000	23,393,000	2020	Jul 2015	30 years
Riverside Apartments	Virginia	38,924,000	184,854,000	54,251,000	38,864,000	239,165,000	278,029,000	72,196,000	1971	May 2016	30 years
Riverside Apartments land parcel (e)	Virginia	15,968,000	—	14,419,000	—	30,387,000	30,387,000	—	n/a	May 2016	n/a
Elme Alexandria	Virginia	23,942,000	93,672,000	19,263,000	23,942,000	112,935,000	136,877,000	19,611,000	1990	Jun 2019	30 years
Elme Manassas	Virginia	13,586,000	68,802,000	8,468,000	13,586,000	77,270,000	90,856,000	14,293,000	1986	Jun 2019	30 years
Elme Dulles	Virginia	12,476,000	66,852,000	10,415,000	12,476,000	77,267,000	89,743,000	14,082,000	2000	Jun 2019	30 years
Elme Leesburg	Virginia	4,113,000	21,286,000	1,832,000	4,113,000	23,118,000	27,231,000	4,937,000	1986	Jun 2019	30 years
Elme Herndon	Virginia	11,225,000	51,534,000	8,295,000	11,225,000	59,829,000	71,054,000	11,369,000	1991	Jun 2019	30 years
Elme Germantown	Maryland	7,609,000	34,431,000	4,838,000	7,609,000	39,269,000	46,878,000	7,569,000	1990	Jun 2019	30 years
Elme Watkins Mill	Maryland	7,151,000	30,851,000	2,548,000	7,151,000	33,399,000	40,550,000	6,900,000	1975	Jun 2019	30 years
Cascade at Landmark	Virginia	12,289,000	56,235,000	5,115,000	12,289,000	61,350,000	73,639,000	10,979,000	1988	Jul 2019	30 years
Elme Conyers	Georgia	4,798,000	42,122,000	4,001,000	4,798,000	46,123,000	50,921,000	4,843,000	1999	Aug 2021	30 years
Elme Eagles Landing	Georgia	16,117,000	86,460,000	5,345,000	16,117,000	91,805,000	107,922,000	8,688,000	2000	Nov 2021	30 years
Elme Sandy Springs	Georgia	17,423,000	85,817,000	5,558,000	17,423,000	91,375,000	108,798,000	7,226,000	1972	Feb 2022	30 years
Elme Marietta	Georgia	19,019,000	83,319,000	2,737,000	19,019,000	86,056,000	105,075,000	5,945,000	1975	May 2022	30 years
Elme Cumberland	Georgia	14,106,000	51,689,000	3,705,000	14,106,000	55,394,000	69,500,000	4,098,000	1982	May 2022	30 years
Elme Druid Hills	Georgia	25,249,000	79,281,000	141,000	25,249,000	79,422,000	104,671,000	1,215,000	1987	Sep 2023	30 years
		$366,233,000	**$1,326,267,000**	**$ 588,313,000**	**$352,611,000**	**$1,928,202,000**	**$2,280,813,000**	**$ 526,321,000**			
Office Building											
Watergate 600 (b)	Washington, DC	$ 45,981,000	$ 78,325,000	$ (30,022,000)	$ 31,486,000	$ 62,798,000	$ 94,284,000	$ 1,703,000	1972	Apr 2017	30 years
Total		**$412,214,000**	**$1,404,592,000**	**$ 558,291,000**	**$384,097,000**	**$1,991,000,000**	**$2,375,097,000**	**$ 528,024,000**			

a) The purchase cost of real estate investments has been divided between land and buildings and improvements on the basis of management's determination of the fair values.

b) During 2023, we recognized an impairment charge of $41.9 million on Watergate 600 in order to reduce its carrying value to its estimated fair value, which declined due to changes in market conditions in the Washington, DC metro region office market.

c) At December 31, 2023, total land, buildings and improvements are carried at $1.5 billion for federal income tax purposes.

d) The useful life shown is for the main structure. Buildings and improvements are depreciated over various useful lives ranging from 3 to 40 years.

e) As of December 31, 2023, Elme Communities had one residential property under development, the Riverside Apartments land parcel. The value not yet placed into service at December 31, 2023 was $30.4 million.

f) As of December 31, 2023, Elme Communities had investments in various development, redevelopment and renovation projects, including The Ashby at McLean and The Paramount. The total value of these projects, which has not yet been placed in service, is $0.6 million at December 31, 2023.

ELME COMMUNITIES AND SUBSIDIARIES

SUMMARY OF REAL ESTATE INVESTMENTS AND ACCUMULATED DEPRECIATION
(IN THOUSANDS)

The following is a reconciliation of real estate assets and accumulated depreciation for the three years ended December 31, 2023 (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Real estate assets			
Balance, beginning of period	$ 2,299,712	$ 1,990,810	$ 3,021,232
Additions:			
Property acquisitions [1]	104,530	271,373	149,497
Improvements [1]	48,075	37,539	34,095
Deductions:			
Impairment write-down	(77,220)	—	—
Write-off of disposed assets	—	(10)	(619)
Property sales	—	—	(1,213,395)
Balance, end of period	$ 2,375,097	$ 2,299,712	$ 1,990,810
Accumulated depreciation			
Balance, beginning of period	$ 479,846	$ 401,926	$ 749,014
Additions:			
Depreciation	83,538	78,267	86,399
Deductions:			
Impairment write-down	(35,360)	—	—
Write-off of disposed assets	—	(347)	(27)
Property sales	—	—	(433,460)
Balance, end of period	$ 528,024	$ 479,846	$ 401,926

(1) Includes non-cash accruals for capital items.

Exhibit 31.1

CERTIFICATION

I, Paul T. McDermott, certify that:

1. I have reviewed this annual report on Form 10-K of Elme Communities;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

DATE: February 16, 2024

/s/ Paul T. McDermott

Paul T. McDermott

Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Steven M. Freishtat, certify that:

1. I have reviewed this annual report on Form 10-K of Elme Communities;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

DATE: February 16, 2024

/s/ Steven M. Freishtat

Steven M. Freishtat
Chief Financial Officer
(Principal Financial Officer)

Exhibit 31.3

CERTIFICATION

I, W. Drew Hammond, certify that:

1. I have reviewed this annual report on Form 10-K of Elme Communities;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

DATE: February 16, 2024

/s/ W. Drew Hammond

W. Drew Hammond
Senior Vice President
Chief Administrative Officer
(Principal Accounting Officer)

Exhibit 32

WRITTEN STATEMENT OF
CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, the President and Chief Executive Officer, the Chief Financial Officer and Chief Administrative Officer of Elme Communities, each hereby certifies on the date hereof, that:

(a) the Annual Report on Form 10-K for the year ended December 31, 2023 filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Elme Communities.

DATE: February 16, 2024	/s/ Paul T. McDermott
	Paul T. McDermott Chief Executive Officer
DATE: February 16, 2024	/s/ Steven M. Freishtat
	Steven M. Freishtat Chief Financial Officer (Principal Financial Officer)
DATE: February 16, 2024	/s/ W. Drew Hammond
	W. Drew Hammond Chief Administrative Officer (Principal Accounting Officer)

Executive Officers

Paul T. McDermott
President & Chief Executive Officer

Steven Freishtat
Executive Vice President
& Chief Financial Officer

Tiffany Butcher
Executive Vice President
& Chief Operating Officer

Susan L. Gerock
Senior Vice President
& Chief Information Officer

W. Drew Hammond
Senior Vice President
& Chief Administrative Officer

Trustees

Corporate Information

Corporate Headquarters
Elme Communities
7550 Wisconsin Ave., Suite 900
Bethesda, MD 20814
202.774.3200
800.565.9748
www.elmecommunities.com

Investor Relations
Elme Communities
Amy Hopkins
Vice President, Investor Relations
202.774.3200

Counsel
Hogan Lovells US LLP
Columbia Square
555 Thirteenth Street, NW
Washington, DC 20004

Independent Registered Public Accounting Firm
Ernst & Young LLP
1775 Tysons Blvd
Tysons, Virginia 22102

Transfer Agent
Computershare Trust Company, N.A.
P.O. Box 30170
College Station, Texas 77845-3170

Annual Meeting
Elme will hold its annual meeting
on May 30, 2024, at 8:30 a.m.

Dividend Reinvestment Plan
Elme's dividend reinvestment plan
permits cash investment of up to
the amount specified in the plan,
plus dividend.

Stock Information
ELME is traded on the New York
Stock Exchange. The trading symbol
is "ELME".

Member
National Association
of Real Estate Investment Trusts®
1875 Eye Street, NW, Suite 600
Washington, DC 20006-5413

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7550 Wisconsin Ave, Bethesda, MD 20814
www.elmecommunities.com