

Illustrative 1900 Crystal Drive

A detailed architectural rendering of a modern skyscraper at dusk. The building has a complex, multi-tiered facade with a grid of windows, many of which are illuminated from within, creating a warm glow against the darkening sky. The building is surrounded by other modern structures, including a lower-rise building with a glass facade and a brick building with large windows. In the foreground, there are trees, a street with a few people, and a car. The overall scene is a vibrant urban environment.

2018 ANNUAL REPORT



Illustrative 1770 Crystal Drive



1221 Van Street Rooftop



Illustrative 965 Florida Avenue

JBG SMITH

With over 50 years of experience in the Washington, DC region, JBG SMITH is the leader in investing, owning, managing, and developing office, retail, residential, and neighborhood assets. Our creativity and scale enable us to be more than owners—we are placemakers who shape inspiring and engaging places, which we believe create value and have a positive impact in every community we touch.

TO OUR FELLOW SHAREHOLDERS

2018 was an extraordinary year for JBG SMITH. Our successful pursuit of the (now only) Amazon HQ2 opportunity deservedly holds first place among our accomplishments for the year. Amazon’s expected growth of 37,850 high-paying technology jobs combined with over \$1.8 billion of infrastructure and education spending represent a dramatic turning point for National Landing.

Approximately 43% of our total holdings are located within a ½ mile of HQ2, including 6.9 million square feet of our Future Development Pipeline, and we own approximately 71% of the office market in National Landing – making Amazon’s HQ2 decision transformational for our company. All of these holdings will accommodate a considerable amount of additional office and multifamily demand and further our significant repositioning of the submarket, which formally commenced in December with the groundbreaking of our Central District Retail project. We believe that Amazon’s presence, combined with the recently enacted infrastructure and education spending that accompanies its move, will change the center of gravity of the entire Washington Metro market in the years to come, and we are fortunate and energized to be in the middle of it.

While no other single achievement came close to the importance or impact of Amazon’s selection of National Landing for its HQ2, 2018 was also a year in which we exceeded all of our other stated targets, including our capital recycling objectives, leasing goals, development milestones, and balance sheet and liquidity targets. As we have articulated at every turn, our primary focus is to maximize long-term net asset value (NAV) per share. This objective is our “True North” and drives every leasing, operations, development, acquisition and disposition decision we make. Because distinct segments of our market present substantial downside risk while others offer attractive upside, our pursuit of long-term NAV growth takes many forms, some of which sit on opposite ends of the risk-taking spectrum. Where we see elevated asset pricing, potential excess supply, and limited prospects for future growth, we are aggressively selling assets and entering into blend-and-

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extend transactions on certain office leases. Conversely, where we see strong growth drivers and attractive long-term fundamentals, we continue to invest in development and value creation. This is especially true for multifamily opportunities in emerging amenity-rich DC submarkets and for virtually all asset types in National Landing. While many of these initiatives come at the expense of short-term income, collectively they set the stage for higher long-term NAV and income growth with lower capital expense burdens and risk.

Over the next four years we plan to invest over \$880 million in our development pipeline, including nine assets currently under construction and 1900 Crystal Drive, which, although not yet fully entitled, is expected to commence construction within a year. With these identified development investments and the stabilization of our operating portfolio, we expect to generate approximately \$550 million of annualized NOI by the fourth quarter of 2024. Assuming we execute these developments as planned, but before accounting for any additional capital recycling activities, we expect to achieve stabilized leverage levels in the mid 6x's with interim peak levels in the low 8x's at the front end of this period. In addition, we continue to capitalize on today's attractive selling environment where we can achieve or exceed NAV pricing, and we have identified opportunities to generate over \$400 million of capital through potential additional asset sales and recapitalizations. These efforts could enable us to create additional investment capacity and reduce our leverage levels even further, a worthwhile goal given current market conditions.

As we head further offshore and deeper into the real estate cycle, it is important to remember that Washington, DC is a market with proven resilience to recessions. In each of the last three national recessions, Washington, DC Metro area employment shrank by only 2.1% on average while other gateway cities shrank by an average of 4.9%. Likewise, Amazon's entry into the market doesn't just give our region a technology growth engine; it also helps bolster our historic recession-resilience. In the last downturn, Amazon saw growth in both sales and profits. Since then, its business has diversified and grown, including cloud computing and the addition of a grocery business – all historically recession resilient sectors. We believe that our focused investment in high-growth, infill locations with a heavy concentration around HQ2 in National Landing positions JBG SMITH to enjoy the best of all worlds in today's investment climate – upside through exposure to the fast-growing technology sector and continued urban infill migration against the backdrop of the historic recession resilience of the overall DC Metro market.

WASHINGTON, DC MARKET UPDATE

Local Economy

The DC region ended 2018 with trailing 12-month job growth of 54,000 jobs, 35% greater than our long-term historical average of about 40,000 jobs. The government shutdown had little impact on the overall fundamentals of the region or our local real estate market. This is likely a reflection on the partial nature of the shutdown, which did not impact defense, as well as our region's increasingly diverse economy. The greatest federal risk factors in the DC market this year are likely to be the debt ceiling debate in March, and the next budget debate in September. While the federal government still makes up approximately 10.9% of our local economy, down from 12.7% in 2011 following the stimulus, federal employment has continued to decline, ending 2018 with approximately 3,600 fewer federal jobs than the year prior, and 20,500 fewer federal workers than at its 10-year peak in 2011. Over time, and with the powerful Amazon catalyst likely to spur additional technology sector growth, we expect the region's economy to continue to diversify away from the federal government as an anchor demand driver.

Office

According to JLL, the office market finished 2018 on a high note with over 2.4 million square feet of absorption – the highest level of new demand in the DC metro market since 2010, and greater than the total of the past three years combined according to JLL. 40% of this demand, totaling over 1 million square feet, was attributable to Northern Virginia, in part due to defense and cyber security leasing which continued to grow, unimpeded by the partial government shutdown.

Despite the positive absorption headline, the region's recovery remains uneven, characterized by pockets of opportunity and risk. The Commodity A sector in DC continues to struggle. With approximately 5.2 million square feet of Trophy office space under construction (approximately 60% of which is pre-leased) Commodity A landlords will likely continue to see tenants upgrade to new Trophy buildings, and we could see market vacancies

for Commodity A space grow from 15% today to over 20% according to one JLL estimate. It is likely that Commodity A rents will decline as a result, narrowing the gap with Class B rents and putting pressure on that segment, which until now, has maintained a sub-8% vacancy rate and healthy rent performance for the past two years. Having worked hard to stay ahead of this trend, we successfully reduced our total square footage of DC Commodity A exposure from 7.3% of our operating and under construction commercial portfolios to less than 3.3% over the course 2018. We have been aggressively reducing rollover risk and exposure across our entire office portfolio outside of National Landing through lease up and renewals. As a result, we have only approximately 24% of our leases outside of National Landing up for renewal over the next three years (end of 2021). Within National Landing we see an opportunity to capture meaningful upside in this same time period, as we pursue renewals or re-leasing in almost 34% of our leased space to drive increased rents and income across the submarket.

Multifamily

The multifamily market continued to perform well through 2018 with over 3% market rent growth in Class A product, according to CoStar. Our submarkets performed largely in line with the overall market, although we saw outperformance in DC proper, where rents in our portfolio grew at a rate of 3.2% for the year. This growth underscores the trends that improving neighborhoods and higher-quality assets are better positioned to capture infill demand from renters that continue to migrate toward close-in urban locations. These trends continue to drive growth at above inflationary levels even in the face of new supply. Although 2018 saw 9,200 units delivered, which was in-line with our long-term average, this number was lower than originally expected, which may bolster rents throughout the year in 2019. Looking ahead, the 2019 pipeline is estimated at approximately 8,700 units, and there are currently 8,800 units in the pipeline for delivery in 2020, although it is likely that some of those will be delayed into 2021. These levels are somewhat below most third-party projected demand forecasts, which could produce continued above inflationary rent growth for the region.

Investment Sales

Despite challenging supply and demand dynamics in the office market, private investor enthusiasm

for the DC market in 2018 remained strong, with 32 sales and more than \$4 billion in volume in DC alone, according to JLL data. Average cap rates were 5.1% for Commodity A buildings and 4.4% for Trophy assets, and the buyer pool remained largely foreign. The impact of Amazon's HQ2 on office investment sales has yet to be felt as no office assets in National Landing have traded post-announcement. A few office assets on the periphery of the submarket are currently being marketed for sale and may provide some indication of investor sentiment in the coming months. Transwestern recently published an expectation of 5% annual office market rent growth in National Landing over the next five years, so cap rates may compress in light of an overall bullish outlook on rents.

Investment sales activity in the multifamily sector was relatively muted through 2018 at just over \$4 billion, down from \$4.5 billion in 2017 and a peak of over \$7 billion in 2015. This decline is largely due to a lack of investor demand relative to office – a phenomenon tied to the dearth of foreign capital in the multifamily market. As a result, 2018 saw several deals pulled from the market after pricing failed to meet seller expectations. If this trend continues, it could create more compelling acquisition opportunities in the months ahead, especially for some of our upcoming 1031-exchange needs. The opposite dynamic appears to be playing out in National Landing, which has seen very strong investor demand for an asset recently marketed for sale, the Meridian at Pentagon City. This 2001-era building (with no development rights) is reported to be under contract at a mid-3% cap rate, which is approximately 150 basis points tighter than the most recent comparable trade in the submarket in 2018.

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After four rate hikes in 2018, the Fed is signaling patience thus far in 2019. Many economists are anticipating no more than two rate hikes this year. In general, debt financing remains competitive with plenty of liquidity and no signs of a slowdown in the near term. Banks are continuing their aggressive streak as they compete with life companies and debt funds, keeping spreads and all-in rates in very attractive territory.

CAPITAL ALLOCATION

The long-term nature of our focus is critically important to our ability to compound meaningful NAV and stock price growth over time. While allocating capital away from high-risk assets with return-devouring capital needs produces less income in the near term, it enables investment in high growth assets that we expect will deliver higher income and value growth over the long term. If we are not selling an asset, then we are buying it, and in the current frothy office investment sales market, we are positioned to sell. We are pleased to have sold or recapitalized \$875 million of assets in 2018, against a stated goal of \$700 million, at pricing levels in excess of our estimated NAV. The assets were identified for sale because of their relatively low expected return potential, and their high tax basis, enabling better capital retention. These sales were executed at very attractive cap rates and even more attractive “economic” cap rates when factoring in go-forward capital needs. The assets sold generated

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\$30 million of NOI in 2018 and, in the aggregate, we believe these assets would have required an additional \$340 million of capital over the next five years, generating an average yield on total cost between 3.5%-4.0% over this time period and a stabilized 4.5%-5.0% yield on total cost. This 5-year stabilized yield is consistent with current market values indicating little to no upside at current market cap rates. By investing these proceeds into our development pipeline where we expect to earn an average yield of approximately 6.5%-7.0%, we believe we are building a far better and more secure return profile for investors without taxing our balance sheet.

Consistent with our approach to capital recycling, in the competitive DC office leasing market, we are focused on retaining tenants and avoiding the costly concessions associated with backfilling vacancy. We believe this approach produces a higher comparable return while better positioning assets for potential sale or recapitalization, and simultaneously de-risking them at a time of greater supply and cyclical downturn risk. As mentioned in prior quarters, the lease renewals we executed in 2017 and 2018 will reduce our NOI in 2019, primarily due to free rent associated with these early renewals. We are well positioned as a result of this strategy, having renewed leases across the portfolio with approximately 80% of our top 20 private sector tenants otherwise expected to roll by the end of 2021. In addition, in the approximately 18 months since our 2017 launch, we have reduced our exposure to known vacancies and leases expiring before 2022 in Commodity A space from approximately 434,000 square feet to approximately 138,000 square feet as of year-end 2018.

In National Landing, where we anticipate strong tenant demand and a more landlord-favored environment, we have generally been pursuing early renewals only where we can achieve full mark-to-market resets or sufficient mid-term rent bumps, and we are generally limiting tenants to shorter term renewals with little or no free rent and more limited concession packages.

We expect the reduction in 2019 NOI from these combined asset sales and blend-and-extend lease renewals executed in 2017 and 2018 to rebound in 2020, when several of our Under Construction assets deliver, concessions from the recent bulge of new and renewal leases burn off, and certain 1031-exchange transactions close. Over the same time period, we also expect to see the impact of converting non-income producing land into income streams with no additional capital investment, as with our ground lease of 1700 M Street and the expected land sale to Amazon and subsequent 1031 exchanges.

Dispositions

As indicated previously, we were a net seller in 2018 with \$875 million of asset sales and recapitalizations. The assets transacted comprise 1900 N Street, Summit I and II, the Bowen Building, Executive Tower, 1233 20th Street, the Investment Building, the out-of-service portion of Falkland Chase – North, The Warner Building, and Commerce Executive, which closed in early 2019. We executed these capital recycling efforts above our estimated NAV and in a tax-efficient manner that allowed us to retain most of the capital while significantly reducing our office exposure, with a specific emphasis on DC Commodity A space.

In addition, we sold a 99-year leasehold interest in 1700 M Street, activating a non-income producing asset, and delivering an increase of recurring and escalating annual Core FFO and Adjusted EBITDA of \$14.7 million with no additional capital investment. The ground lease structure also gives us near perpetual optionality for a future 1031 exchange.

Finally, the expected sale of the Pen Place and Met 6, 7, and 8 land sites to Amazon is expected to generate \$294 million of proceeds from non-income producing land that had been carried at a historical cost of approximately \$163 million with an annual carrying cost of approximately \$2.0 million. We intend to exchange these sales into income producing multifamily assets that we expect, at market values, to increase our NOI and Adjusted EBITDA by approximately \$16 million or an approximate 10% yield on our historical cost with no additional capital investment. Over the long term, we expect our capital recycling efforts to further reduce our exposure to office and increase our exposure to multifamily in the emerging growth submarkets in which we are concentrated, and we expect to continue our aggressive approach to monetizing or activating non-income producing land assets.

Assuming market conditions remain supportive, we will continue to seek capital recycling opportunities where we can source capital at or above our estimated NAV. In this regard, we are targeting approximately \$400 million of asset sales and recapitalizations in 2019. In July of this year, certain assets contributed to JBG SMITH in the merger will have been held by us for the required holding period and become eligible for sale. Due to their high tax bases, which we retained in the merger, many of these assets are ideal sale candidates assuming they meet our pricing requirements. Having high basis assets is an unusual advantage among long-held portfolios and one that we intend to take

advantage of to pursue higher growth opportunities where possible. For low-basis sale candidates, we plan to seek 1031 exchanges that would allow us to trade out of low-return assets into higher-yielding development opportunities or acquisitions with better long-term growth profiles. In the current environment, these are more likely to be multifamily assets. We are also focused on additional opportunities to turn land assets into income streams or retained capital with limited additional capital spend either via 1031 exchanges into income producing assets or through ground leases.

Acquisitions

As we have noted before, the acquisition environment remains competitive, and many asset classes, particularly downtown office, are priced aggressively. Consequently, we remain cautious, and we are currently net sellers. Where we see opportunities to trade out of higher risk assets with extensive capital needs or those outside of our geographic footprint, we will consider 1031 exchanges. As part of the expected sale of Pen Place and Met 6, 7, and 8 to Amazon, the timeline of closing preserves flexibility to facilitate exchange opportunities. Earlier this month, we entered into a contract to purchase a stabilized multifamily asset in DC, which will be identified as a replacement property in a 1031 exchange opportunity for Met 6, 7, and 8 when the expected closing occurs later this year. Assuming it closes, we expect this acquisition to generate approximately \$7.5 million of annualized NOI. We expect Pen Place to close in 2020, and we will seek a 1031 exchange shortly thereafter.

Development

We continue to make progress advancing the entitlement and design of opportunities in our Future Development Pipeline. Our strategy with non-income producing assets is to advance them to shovel-ready condition to maximize optionality associated with sale, recapitalization or internal funding when our balance sheet and market conditions favor new development. In the current climate we expect multifamily development opportunities to remain attractive, particularly in light of potentially declining supply levels, especially in National Landing and other emerging growth submarkets with strong demand drivers. In these locations, we expect to be active developers in the face of new demand for multifamily and office space from tenants that seek to co-locate with Amazon. Local economists have predicted that Amazon's initial 25,000 jobs are expected to lead to

follow-on demand ranging from 44,000-125,000 additional jobs, and we are extremely well positioned to capture this type of demand. In addition, we are ideally suited to satisfy any future Amazon demand that may arise beyond its currently stated needs.

AMAZON HQ2 AT NATIONAL LANDING

In November, Amazon selected National Landing in Arlington, Virginia as the location of its second headquarters. Amazon expects to initially invest \$2.5 billion in the submarket to house its first 25,000 employees. The key terms of the proposed Amazon HQ2 transaction include:

- Leases for approximately 537,000 square feet of existing office space at 241 18th Street S. (approximately 88,000 square feet), 1800 South Bell Street (full building lease for approximately 191,000 square feet), and 1770 Crystal Drive (full building lease for approximately 258,000 square feet), with approximately \$95 million of incremental JBG SMITH investment, expected to generate a combined net effective rent of approximately \$35 per square foot.
- Sale of Met 6, 7, and 8 and Pen Place land in our Future Development Pipeline with Estimated Potential Development Density of up to 4.1 million square feet for \$294 million or approximately \$72 per square foot.
- Closing timed to facilitate potential 1031 exchanges of the proceeds from the land sales.
- JBG SMITH to be retained as developer, property manager, and exclusive retail leasing agent for Amazon in National Landing.

Earlier this month, the Commonwealth of Virginia enacted the Amazon incentives bill, which provides tax incentives to Amazon as it creates up to 37,850 full-time jobs with average salaries of \$150,000 or higher in National Landing. As part of the incentive package, we expect \$1.8 billion of infrastructure and education investments led by state and local governments, including:

- Two new Metro entrances (Crystal Drive and Potomac Yard).
- Pedestrian bridge to Reagan National Airport immediately adjacent to JBG SMITH holdings.
- New commuter rail hub (VRE) with station entrance located in between two JBG SMITH office assets.
- Lowering of elevated sections of Route 1 that currently divide parts of National Landing to create better multimodal access and walkability.
- Approximately \$500 million of funding for a National Landing innovation campus anchored by Virginia Tech.
- Approximately \$425 million of education investments from George Mason University and the Commonwealth of Virginia.

In addition to commencing work on the approximately 537,000 square feet of office space expected to be leased by Amazon, we have started design and pre-development for the first approximately 2.0 million square feet (Mets 6, 7, and 8) of Amazon's initially planned 4.1 million square feet for HQ2, which based on Amazon's current timeline, is expected to commence construction within the next year. In addition, we are working diligently on finalizing the entitlements for the remaining 2.1 million square feet (Pen Place).

**APPROXIMATELY
43%**

of our total holdings are located within a ½ mile of HQ2

6.9M SF

of our Future Development Pipeline located within National Landing

**APPROXIMATELY
71%**

JBG SMITH ownership of the office market in National Landing

FINANCIAL AND OPERATING METRICS

For the year ended December 31, 2018 we reported net income of \$39.9 million and Core FFO of \$206.2 million or \$1.73 per share. We saw a same store NOI decrease of (1.1%), and we ended the year at 91.2% leased and 87.7% occupied. For second generation leases, the rental rate mark-to-market was (6.6%), which is in-line with our long-term average expectation of (5%). Over the past few quarters, we renewed several leases early to retain tenants in what we expect will continue to be a competitive market. While these blend-and-extend lease renewals include free rent, impacting near term NOI and same store NOI growth, we believe signing these deals is an excellent defensive leasing strategy given the alternative of downtime and re-leasing costs that would otherwise be associated with replacing these tenants. These extensions de-risk assets at a time of increasing supply and cyclical downturn risk, as well as increase the potential for sale or recapitalization on a more attractive basis. As the free rent in these leases burns off, and our Under Construction assets deliver, we expect our NOI to grow and surpass 2018 levels by the second half of 2020.

OPERATING PORTFOLIO

Consistent with our focus on long-term value creation, we took several steps in 2018 to improve the risk profile and long-term income potential of our commercial operating portfolio, including:

- Increasing our leased percentage from 89.8% at year-end 2017 to 91.2% at year-end 2018.
- Executing 1.9 million square feet (at share) of commercial and retail leases across our portfolio.
- Executing renewals and early blend-and-extend leases for 1.1 million square feet (at share) for in-place office tenants to de-risk our portfolio and better position certain assets for sale or recapitalization.
- Disposing of or recapitalizing approximately \$875 million of low-growth assets with substantial capital needs at pricing levels in excess of our estimated NAV.
- Reducing our total square footage of Commodity A office exposure from 7.3% of our operating and under construction commercial portfolios to less than 3.3%.

For the three months ended December 31, 2018, our 11.3 million square foot operating commercial portfolio (at share) generated \$262 million of annualized NOI and was 89.6% leased and 85.5% occupied. We completed 42 office lease transactions in our operating office portfolio totaling over 741,000 square feet (at share), including 545,000 square feet of new leases and 196,000 square feet of renewals. For second-generation leases, the rental rate mark-to-market was (7.3%). This mark-down is within a range that is consistent with our long-term average (5%) mark-to-market assumption and is primarily the result of blend-and-extend renewals in our operating commercial portfolio.

As mentioned in prior quarters, the lease renewals we executed in 2017 and 2018 will reduce our NOI in 2019, primarily due to free rent associated with these early renewals. As a reflection of our aggressive approach to de-risking our portfolio, we have renewed leases with almost 80% of the private sector tenants in our top 20 tenant list that, prior to these renewals, were set to expire between 2018 and 2021. We believe this strategy will ultimately achieve superior economic outcomes while establishing a defensive position in the face of increasing Trophy supply and downturn risk. We expect the temporary NOI decline associated with these tactical defensive moves to reverse in 2020 as concessions burn off.

Our same store NOI decreased (7.4%) across our operating portfolio during the fourth quarter. As noted in prior quarters, our positive same store NOI growth earlier this year was primarily a result of the burn off of rental abatements and assumed lease liability obligations in our office portfolio, as well as higher rental revenue from lease commencements. As expected, we saw that trend reverse in the fourth quarter, as rental abatements from leases signed in 2017 and 2018 took effect. In addition, the delayed timing of tenant improvement expenditures for Arlington County's lease increased Courthouse Plaza's ground lease expense in the fourth quarter by \$2.3 million, which accounted for over a third of this reduction in same store NOI.

Looking forward, while we have assumed a defensive posture in DC, we are more offensively positioned in National Landing. We expect meaningful gains in income and asset values over time and have already seen the market respond favorably to this expectation in the form of increased tours and tenant outreach. It is still very early,

but we are expecting improved performance, especially in the coming years as Amazon ramps up beyond its initial occupancy in the middle of this year. As part of strategy, we have rolled out a significant marketing and outreach program to tenants and tenant brokers in our market, and to out-of-market tenants that have historically co-located with Amazon in other tech markets. Amazon's growth will be gradual, and leasing is a long lead time business, but we are encouraged by the market's early reaction to HQ2.

In our operating multifamily portfolio, our leased percentage was 95.7% at year-end 2017 and 95.7% at year-end 2018, and our occupied percentage increased from 93.8% at year-end 2017 to 93.9% at year-end 2018. In addition, our concentration in multifamily assets (based on square footage) increased from 23% at year-end 2017 to 26% at year-end 2018, with an expected proportion of 31% when accounting for our Under Construction assets and planned capital recycling activities. Our operating multifamily portfolio, comprising approximately 4,531 units (at share), generated \$80 million of annualized NOI and ended the fourth quarter at 95.7% leased, down from 96.1% leased in the third quarter. While this decline reflects expected and typical seasonal demand trends, we nonetheless saw particularly strong performance at several assets including, Fort Totten Square, The Alaire, and 1221 Van Street, a recently delivered multifamily asset in the Ballpark/Southeast submarket. As of the fourth quarter, the multifamily portion of 1221 Van Street was 82.5% leased, and the retail portion was 93.1% leased to several high-end, amenity-based retailers. As Amazon ramps up in National Landing, we anticipate increased demand for our multifamily units in a number of proximate and "close commute" submarkets, and we expect to see income growth track accordingly.

DEVELOPMENT PORTFOLIO

We delivered three new assets - 1221 Van Street, CEB Tower at Central Place and Stonebridge at Potomac Town Center - Phase II - all ahead of schedule and below budget, which together represented 31% of the total project costs for our Under Construction and Near Term Development assets at the time of our 2017 merger. In total, our Under Construction portfolio comprises approximately 927,000 square feet of office, of which 77.4% is pre-leased including Amazon's expected lease at 1770 Crystal Drive, and 1,298 multifamily units. These nine assets represent \$1.2 billion of total investment, have a weighted average stabilization date of the second quarter of 2021, and are expected to produce \$74.2 million of NOI. In addition to our Under Construction assets, our Future Development Pipeline consists of 19.6 million square feet of development opportunities, of which 11.0 million square feet or approximately 56.2% is located in National Landing. These numbers include the initially planned 4.1 million square feet that we expect to develop on behalf of Amazon, which when excluded, would result in 44.7% of our Future Development Pipeline being located in National Landing.

Q4 2018 STATISTICS

OPERATING PORTFOLIO

11.3M

Commercial SF

4,531

Multifamily Units

UNDER CONSTRUCTION

927,000

Commercial SF

1,298

Multifamily Units

FUTURE DEVELOPMENT PIPELINE

19.6M

Estimated Potential
Development Density

Under Construction

During the fourth quarter, we commenced construction on 1770 Crystal Drive and Central District Retail in National Landing, bringing our total assets Under Construction to nine. The remaining estimated incremental investment associated with these nine assets is approximately \$519 million. These assets have a weighted average estimated completion date of the second quarter of 2020 and a weighted average estimated stabilization date of the second quarter of 2021. At market land values, the projected NOI yield based on estimated total project cost for these assets is 6.7%. The yield shown in our fourth quarter supplemental is lower due to pre-merger design costs and undepreciated improvements not related to the currently planned developments at 1770 Crystal Drive and Central District Retail. Based on projected stabilized NOI (at share), our Under Construction portfolio is 51% multifamily and 49% commercial. The commercial assets represent approximately 927,000 square feet (at share), of which 77.4% is pre-leased, including Amazon's expected lease at 1770 Crystal Drive, up 13.5% from the prior quarter.

Near Term Development

We do not have any assets in the Near Term Development Pipeline as of year-end. As a reminder, the definition of this category is such that we only place assets into our Near Term Development Pipeline when they have substantially completed the entitlement process and we intend to commence construction within 18 months, subject to market conditions. Based on our current plans, we expect 1900 Crystal Drive to be placed into Near Term Development by the end of this year. We are in the process of finalizing approvals for the project and demolishing the existing out-of-service office building. While our initial zoning application for this site calls for multifamily development, it may be developed as either multifamily or office depending upon market conditions and potential tenant demand. We will not make a final determination of use until we are closer to construction commencement later this year.

Future Development Pipeline

Our Future Development Pipeline comprises 19.6 million square feet (at share), with an estimated total investment of approximately \$36 per square foot. At year end, approximately 56.2% of this pipeline was in National Landing, 17.7% was in Reston, 1.2% was in Other VA, 17.7% was in DC, 6.5% was in Silver Spring, and 0.7% was in Greater Rockville. During the fourth quarter, we closed on our option to purchase Potomac Yard Land Bay H for approximately \$19 per square foot. This land is located directly across the street from the planned \$1 billion Virginia Tech Innovation Campus and has estimated potential development density of 1.2 million square feet. We view our Future Development Pipeline as a substantial source of value that can be unlocked through new development, land sales, and/or ground leases, and we will aggressively continue to explore attractive opportunities to harvest value from land sites as part of our capital recycling and development efforts.

THIRD-PARTY ASSET MANAGEMENT AND REAL ESTATE SERVICES BUSINESS

Revenue from our third-party asset management and real estate services business was \$14.3 million in the fourth quarter, primarily driven by \$5.6 million in property management fees and \$3.5 million in asset management fees. The portion of the total fees associated with the JBG Legacy Funds was \$5.5 million. The JBG Legacy Funds continued to dispose of assets in accordance with their underlying business plans. We expect Amazon to pay third-party fees to JBG SMITH for development, construction management, retail leasing, and property management services at rates that are in-line with our other third-party management fees. We expect these fees to offset the reduction in fees from the wind down of the JBG Legacy Fund business over the next 3-6 years.

BALANCE SHEET

As of December 31, 2018, we had \$261 million of cash (\$274 million of cash at share) and \$1.1 billion available on our \$1.4 billion credit facility. Our Net Debt/Annualized Adjusted EBITDA was 6.5x, and our Net Debt/Total Enterprise Value was 31.0% using our share price at December 31, 2018. As a reminder, our leverage metrics do not reflect the stabilized NOI from our Under Construction assets, but they do include all of the debt incurred through year-end 2018 to develop those assets. We started 2018 with a Net Debt/Annualized Adjusted EBITDA of 7.1x and a Net Debt/

Total Enterprise Value of 32.0%. As a result of the successful execution of our capital recycling efforts during 2018, we reduced our Net Debt/EBITDA by 0.6x to 6.5x, and our Net Debt/Total Enterprise Value by 1.0% to 31.0%. Over the next four years, we expect to achieve stabilized leverage levels in the mid 6x's with interim peak levels in the low 8x's at the front end of this period, excluding the effects of any additional capital recycling activities.

As of December 31, 2018, our average debt maturity was 4.1 years, with approximately \$439 million coming due in the next two years. Our debt is 72.8% fixed rate, which is in-line with our target range of 70% to 80% fixed, and we have caps in place for 9.6% of our total debt. Consistent with our strategy to finance our business primarily with non-recourse, asset-level financing, 87.7% of our consolidated and unconsolidated debt is mortgage debt, of which only approximately \$8.3 million is recourse to JBG SMITH. The near-term capital needs associated with our nine Under Construction assets (\$519 million of estimated incremental investment at share), can be fully funded with cash, in-place construction loans, and available draws on our credit facilities.

In 2018 we completed the conversion of all legacy Vornado assets onto our accounting and IT systems, and we ended transition services provided by Vornado. In addition, we completed all planned integration activities related to the merger, and we have realized 100% of the \$35 million of identified synergies.

CULTURE, GOVERNANCE, AND MANAGEMENT CHANGES

We pride ourselves on a culture that is focused on the long term, including proactive succession planning and the cultivation of talent. In that vein, we are proud to announce that Moina Banerjee was promoted to Executive Vice President, Head of Capital Markets, and joined our Executive Committee. Moina's role includes oversight of capital markets, investor relations, financial planning and analysis, and portfolio management. In addition, Kai Reynolds is now serving as our sole Chief Development Officer. Brian Coulter is serving in a new role as a Senior Advisor supporting our development group. As has been the case since our launch in 2017, James Iker will continue to focus exclusively on overseeing the wind-down of the JBG Legacy Fund assets over the next 3-6 years.

As we look back on our performance and accomplishments, it is clear that 2018 was a milestone year for JBG SMITH. We successfully pursued and won Amazon HQ2, exceeded our capital recycling goals, improved the performance and risk position of our operating portfolio, and continued to invest in attractive development opportunities across our targeted submarkets. As we look forward, we are energized by the wealth of opportunities ahead of us. With approximately 43% of our company within a ½ mile of Amazon's new headquarters, annualized NOI expected to grow to approximately \$550 million by the fourth quarter of 2024, a valuable and maturing Future Development Pipeline, and a strong balance sheet with abundant capital recycling opportunities to fund our growth, we are incredibly excited about the future of JBG SMITH. Our management team and Board of Trustees own or represent approximately 10% of our company. In addition, many of us elected to take equity in lieu of all or most of our cash bonuses in 2018 and 2019 because we believe JBG SMITH represents the best of all worlds for our shareholders – significant, in-place long-term growth (turbo-charged by Amazon), strong risk protection from our concentration in the historically recession resilient DC market, and a portfolio that is well prepared to weather the near term pressures of the cycle and market fundamentals.

We appreciate the time you invested in reading our letter and better understanding our company and strategy. Our team remains energized and focused on the opportunities before us, and we will continue to work hard to maintain your trust and confidence.

“
We pride ourselves on a culture that is focused on the long term, including proactive succession planning and the cultivation of talent.
”



W. Matthew Kelly
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 the fiscal year ended December 31, 2018

OR

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

For the transition period from _____ to _____

Commission file number 001-37994



JBG SMITH

JBG SMITH PROPERTIES

(Exact name of Registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or organization)

4445 Willard Avenue, Suite 400
Chevy Chase, MD

(Address of principal executive offices)

81-4307010

(I.R.S. Employer Identification No.)

20815

(Zip Code)

Registrant's telephone number, including area code: (240) 333-3600

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

Common Shares, par value \$0.01 per share

(Title of each class)

New York Stock Exchange

(Name of exchange on which registered)

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 for 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 Regulations 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes No

As of February 20, 2019, JBG SMITH Properties had 122,593,995 common shares outstanding.

As of June 30, 2018, the aggregate market value of common stock held by non-affiliates of the Registrant was approximately \$4.1 billion based on the June 30, 2018 closing share price of \$36.47 per share on the New York Stock Exchange.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference information from certain portions of the registrant's definitive proxy statement for its 2019 annual meeting of shareholders to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

JBG SMITH PROPERTIES
ANNUAL REPORT ON FORM 10-K
YEAR ENDED DECEMBER 31, 2018

TABLE OF CONTENTS

	<u>Page</u>
PART I	
Item 1. Business	3
Item 1A. Risk Factors	9
Item 1B. Unresolved Staff Comments	35
Item 2. Properties	35
Item 3. Legal Proceedings	40
Item 4. Mine Safety Disclosures	41
PART II	
Item 5. Market For Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	41
Item 6. Selected Financial Data	42
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	45
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	65
Item 8. Financial Statements and Supplementary Data	67
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	114
Item 9A. Controls and Procedures	114
Item 9B. Other Information	115
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	116
Item 11. Executive Compensation	116
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	116
Item 13. Certain Relationships and Related Transactions and Director Independence	116
Item 14. Principal Accounting Fees and Services	116
PART IV	
Item 15. Exhibits and Financial Statement Schedules	116
Item 16. Form 10-K Summary	123
Signatures	124

PART I

ITEM 1. BUSINESS

The Company

JBG SMITH Properties ("JBG SMITH") is a real estate investment trust ("REIT") that owns, operates, invests in and develops real estate assets concentrated in leading urban infill submarkets in and around Washington, D.C. We own and operate a portfolio of high-quality commercial and multifamily assets, many of which are amenitized with ancillary retail. In addition, our third-party asset management and real estate services business provides fee-based real estate services to third parties and the legacy funds formerly organized by The JBG Companies ("JBG Legacy Funds"). References to "our share" refer to our ownership percentage of consolidated and unconsolidated assets in real estate ventures.

As of December 31, 2018, our Operating Portfolio consists of 62 operating assets comprising 46 commercial assets totaling approximately 12.9 million square feet (11.3 million square feet at our share) and 16 multifamily assets totaling 6,315 units (4,531 units at our share). Additionally, we have (i) nine assets under construction comprising five commercial assets totaling approximately 1.2 million square feet (927,000 square feet at our share) and four multifamily assets totaling 1,476 units (1,298 units at our share); and (ii) 41 future development assets totaling approximately 23.1 million square feet (19.6 million square feet at our share) of estimated potential development density. We present combined portfolio operating data that aggregates assets that we consolidate in our financial statements and assets in which we own an interest, but do not consolidate in our financial results. For more information regarding our assets, see Item 2 "Properties".

We define "square feet" or "SF" as the amount of rentable square feet of a property that can be rented to tenants, defined as (i) for commercial assets, rentable square footage defined in the current lease and for vacant space the rentable square footage defined in the previous lease for that space, (ii) for multifamily assets, management's estimate of approximate rentable square feet, (iii) for assets under construction and near-term development assets, management's estimate of approximate rentable square feet based on current design plans as of December 31, 2018, or (iv) for future development assets, management's estimate of developable gross square feet based on its current business plans with respect to real estate owned or controlled as of December 31, 2018. "Metro" is the public transportation network serving the Washington, D.C. metropolitan area operated by the Washington Metropolitan Area Transit Authority, and we consider "Metro-served" to be locations, submarkets or assets that are generally nearby and within walking distance of a Metro station, defined as being within 0.5 miles of an existing or planned Metro station.

Corporate Structure and Formation Transaction

JBG SMITH was organized by Vornado Realty Trust ("Vornado" or "former parent") as a Maryland REIT on October 27, 2016 for the purpose of receiving, via the spin-off on July 17, 2017 (the "Separation"), substantially all of the assets and liabilities of Vornado's Washington, D.C. segment, which operated as Vornado / Charles E. Smith, (the "Vornado Included Assets"). On July 18, 2017, JBG SMITH acquired the management business and certain assets and liabilities (the "JBG Assets") of The JBG Companies ("JBG") (the "Combination"). The Separation and the Combination are collectively referred to as the "Formation Transaction." Unless the context otherwise requires, all references to "we," "us," and "our," refer to the Vornado Included Assets (our predecessor and accounting acquirer) for periods prior to the Separation and to JBG SMITH for periods after the Separation. Substantially all of our assets are held by, and our operations are conducted through, JBG SMITH Properties LP ("JBG SMITH LP"), our operating partnership.

Our Strategy

Our mission is to own and operate a high-quality portfolio of Metro-served, urban-infill office, multifamily and retail assets concentrated in downtown Washington, D.C., our nation's capital, and other leading urban infill submarkets with proximity to downtown Washington, D.C. and to grow this portfolio through value-added development and acquisitions. We have significant expertise in office, multifamily and retail product types, our core asset classes. We believe we are known for our creative deal-making and capital allocation skills and for our development and value creation expertise across our core product types.

One of our approaches to value creation uses a series of complementary disciplines through a process we call "Placemaking." Placemaking involves strategically mixing high-quality multifamily and commercial buildings with anchor, specialty and neighborhood retail in a high density, thoughtfully planned and designed public space. Through this process, we create synergies, and thus value, across those varied uses and create unique, amenity-rich, walkable neighborhoods that are desirable and enhance significant tenant and investor demand. We believe that our Placemaking approach will increase occupancy and rental rates in our portfolio, particularly with respect to our concentrated and extensive land and building holdings in National Landing. National Landing is the newly defined interconnected and walkable neighborhood that encompasses Crystal City, the eastern portion of Pentagon City and the northern portion of Potomac Yard. It is situated across the Potomac River from Washington, D.C. and we

believe it is one of the region's best-located urban mixed-use communities. It is defined by its central and easily accessible location, its adjacency to Reagan National Airport, and its base of existing offices, apartments and hotels.

Since mid-2017, we have been focused on a comprehensive plan to reposition our holdings in National Landing through a broad array of Placemaking strategies. Our Placemaking strategies include the delivery of new multifamily and office developments, locally sourced amenity retail and thoughtful improvements to the streetscape, sidewalks, parks and other outdoor gathering spaces. In keeping with our dedication to Placemaking, each new project is intended to contribute to authentic and distinct neighborhoods by creating a vibrant street environment with a robust offering of amenity retail and improved public spaces.

On November 13, 2018, Amazon.com, Inc. ("Amazon") announced publicly the selection of sites that we own in National Landing as the location of an additional headquarters ("Amazon HQ2"), subject to negotiation and execution of definitive documentation between Amazon and JBG SMITH, and subject to the approval of tax incentives by the Commonwealth of Virginia and Arlington County. Earlier this month, the Commonwealth of Virginia enacted an incentives bill, which provides tax incentives to Amazon as it creates up to 37,850 full-time jobs with average salaries of \$150,000 or higher in National Landing. As part of the incentive package, we expect \$1.8 billion in infrastructure and education investments led by state and local governments.

Approximately 43% of the square feet of our total holdings is located within a ½ mile of Amazon HQ2, including 6.9 million square feet in our future development pipeline (in addition to the approximately 4.1 million square feet that we expect to develop on behalf of Amazon). We anticipate that we will enter into agreements with Amazon pursuant to which Amazon will engage us as its development manager, property manager, and retail leasing agent for Amazon HQ2. In addition, we granted Amazon the exclusive right for a limited time to lease approximately 500,000 square feet of existing office space at 241 18th Street S., 1800 South Bell Street and 1770 Crystal Drive, and the right to acquire the Pen Place and Met 6, 7 and 8 land in our future development pipeline with estimated potential development density of up to approximately 4.1 million square feet.

Our primary business objectives are to maximize cash flow and generate strong risk-adjusted returns for our shareholders. We intend to pursue these objectives through the following strategies:

Focus on High-Quality Mixed-Use Assets in Metro-Served Submarkets in the Washington, D.C. Metropolitan Area. We intend to continue our longstanding strategy of owning and operating assets within urban-infill, Metro-served submarkets in the Washington, D.C. metropolitan area with high barriers to entry and key urban amenities, including being within walking distance of the Metro. These submarkets, which include the District of Columbia; National Landing, the Rosslyn-Ballston Corridor, Reston and Alexandria in Virginia; and Bethesda, Silver Spring and the Rockville Pike Corridor in Maryland, generally feature strong economic and demographic attributes, as well as superior transportation infrastructure that caters to the preferences of our office, multifamily and retail tenants. We believe these positive attributes will allow our assets located in these submarkets to outperform the Washington, D.C. metropolitan area as a whole.

Realize Contractual Embedded Growth. We believe there are substantial near-term growth opportunities embedded in our existing Operating Portfolio, many of which are contractual in nature, including the burn-off of free rent, contractual rent escalators in our non-GSA office and retail leases based on increases in CPI or a fixed percentage, and the commencement of signed but not yet commenced leases. "GSA" refers to the General Services Administration, which is the independent federal government agency that manages real estate procurement for the federal government and federal agencies.

Drive Incremental Growth Through Lease-up of Our Assets. We believe that we are well-positioned to achieve significant internal growth through lease-up of the vacant space in our Operating Portfolio, including certain recently developed assets, given our leasing capabilities and the tenant demand for high-quality space in our submarkets. As of December 31, 2018, we had 46 operating commercial assets totaling approximately 12.9 million square feet (11.3 million square feet at our share), which were 89.6% leased at our share, resulting in approximately 1.2 million square feet available for lease.

Deliver Our Assets Under Construction. As of December 31, 2018, we had nine high-quality assets under construction in which we expect to make an estimated incremental investment of \$519.4 million at our share. Our assets under construction consist of five commercial assets totaling approximately 1.2 million square feet (927,000 square feet at our share) and four multifamily assets totaling 1,476 units (1,298 units at our share), all of which are Metro-served. We believe these projects provide significant potential for value creation. As of December 31, 2018, 53.5% (49.5% at our share) of our commercial assets under construction were pre-leased. Amazon is expected to lease 258,299 SF at 1770 Crystal Drive. With this expected lease with Amazon, the asset would be 97.8% pre-leased, and the pre-leased status of our total under construction portfolio would be 75.8% (77.4% at our share). We define "estimated incremental investment" to mean management's estimate of the remaining cost to be incurred in connection with the development of an asset as of December 31, 2018, including all remaining acquisition costs, hard costs, soft costs, tenant improvements (excluding free rent converted to tenant improvement allowances), leasing costs and other similar costs to develop and stabilize the asset but excluding any financing costs, ground rent expenses and capitalized payroll costs.

Develop Our Significant Future Development Pipeline. We have a significant pipeline of opportunities for value creation through ground-up development, with the goal of producing favorable risk-adjusted returns on invested capital. We expect to be active in developing these opportunities while maintaining prudent leverage levels. Our future development pipeline consists of 41 assets. We estimate our future development pipeline can support over 23.1 million square feet (19.6 million square feet at our share) of estimated potential development density, with 96.8% of this potential development density being Metro-served based on our share of estimated potential development density. The estimated potential development densities and uses reflect our current business plans as of December 31, 2018 and are subject to change based on market conditions. We characterize our future development pipeline as our assets that are development opportunities on which we do not intend to commence construction within 18 months of December 31, 2018 where we (i) own land or control the land through a ground lease or (ii) are under a long-term conditional contract to purchase or enter into a leasehold interest with respect to land.

Our future development pipeline includes six parcels attached to assets in our Operating Portfolio that would require a redevelopment of approximately 349,000 office and/or retail square feet (251,000 square feet at our share) and 324 multifamily units (185 units at our share), which generated \$4.9 million of annualized net operating income ("NOI") for the year ended December 31, 2018, in order to access approximately 3.8 million square feet (2.6 million square feet at our share) of total estimated potential development density.

Redevelop and Reposition Our Assets. We evaluate our portfolio on an ongoing basis to identify value-creating redevelopment and renovation opportunities, including the addition of amenities, unit renovations and building and landscaping enhancements. We intend to seek to increase occupancy and rents, improve tenant quality and enhance cash flow and value by completing the redevelopment and repositioning of certain of our assets, including the use of our Placemaking process. This approach is facilitated by our extensive proprietary research platform and deep understanding of submarket dynamics. We believe there will be significant opportunities to apply our Placemaking process across our portfolio.

Rigorous Approach to Capital Allocation. An important component of our focus on maximizing long-term net asset value ("NAV") per share, is prudent capital allocation. We evaluate development, acquisition and disposition decisions based on how they impact long-term NAV per share. Because distinct segments of our market present substantial downside risk while others offer attractive upside, our pursuit of long-term NAV growth takes many forms, some of which sit on opposite ends of the risk-taking spectrum. Where we see elevated asset pricing, potential excess supply, and limited prospects for future growth, we will likely sell assets. Given the attractive pricing of office assets and our long-term objective of shifting our portfolio towards a 50:50 mix of office and multifamily, we are currently targeting primarily office assets in submarkets where we have less concentration and where we anticipate lower growth rates going forward relative to other opportunities within our portfolio. We are also focused on opportunities to turn land assets into income streams or retained capital.

The acquisitions market in the Washington, D.C. area continues to be competitive, and we remain cautious. We expect near-term acquisition activity to be focused on assets with redevelopment potential in emerging growth neighborhoods, as well as assets adjacent to our existing holdings where the combination of sites can add unique value to any new investment. Where there are opportunities to trade out of higher risk assets with extensive capital needs or those outside of our geographic footprint, we will consider Section 1031 exchanges under the Internal Revenue Code of 1986, as amended (the "Code").

Third-Party Services Business

Our third-party asset management and real estate services platform provides fee-based real estate services to third parties, the JBG Legacy Funds and the Washington Housing Initiative ("WHI"), which intends to pursue a transformational approach to producing affordable workforce housing and creating sustainable, mixed-income communities in the Washington D.C. region. Although a significant portion of the assets and interests in assets formerly owned by certain of the JBG Legacy Funds were contributed to us in the Combination, the JBG Legacy Funds retained certain assets that are not consistent with our long-term business strategy, which were generally categorized as (i) condominium and townhome assets, (ii) hotels, (iii) assets that were likely to be sold by the JBG Legacy Funds in the near term as of the time of the Combination, (iv) assets located outside of our core markets or that are not Metro-served, (v) noncontrolling real estate venture interests and (vi) single-tenant leased GSA assets that are encumbered with long-term, hyper-amortizing bond financing that is not consistent with our financing strategy. With respect to the JBG Legacy Funds and for most assets that we hold through real estate ventures, we will continue to provide the same asset management, property management, construction management, leasing and other services that were provided prior to the Combination by the management business that we acquired in the Combination. Other than the WHI, we do not intend to raise any future investment funds, and the JBG Legacy Funds will be managed and liquidated over time. We expect to continue to earn fees from these funds as they are wound down, as well as from any real estate venture arrangements currently in place and any new real estate venture and/or development arrangements entered into in the future, including with Amazon. Certain individual members of our management team own direct equity co-investment and promote interests in the JBG Legacy Funds that were not contributed to us. As the JBG Legacy Funds are wound down over time, these economic interests will decrease and be eventually eliminated.

We believe that the fees we earn in connection with providing these services will enhance our overall returns, provide additional scale and efficiency in our operating, development and acquisition businesses and generate capital which we can use to absorb overhead and other administrative costs of the platform. This scale provides competitive advantages, including market knowledge, buying power and operating efficiencies across all product types. We also believe that our existing relationships arising out of our third-party asset management and real estate services business will continue to provide potential capital and new investment opportunities.

Competition

The commercial real estate markets in which we operate are highly competitive. We compete with numerous acquirers, developers, owners and operators of commercial real estate including other REITs, private real estate funds, domestic and foreign financial institutions, life insurance companies, pension trusts, partnerships and individual investors, many of which own or may seek to acquire or develop assets similar to ours in the same markets in which our assets are located. These competitors may have greater financial resources or access to capital than we do or be willing to acquire assets in transactions which are more highly leveraged or are less attractive from a financial viewpoint than we are willing to pursue. Leasing is a major component of our business and is highly competitive. The principal means of competition in leasing are lease terms (including rent charged and tenant improvement allowances), location, services provided and the nature and condition of the asset to be leased. If our competitors offer space at rental rates below current market rates, below the rental rates we currently charge our tenants, in better locations within our markets, in higher quality assets or offer better services, we may lose potential tenants and we may be pressured to reduce our rental rates below those we currently charge to retain tenants when our tenants' leases expire.

Seasonality

Our revenues and expenses are, to some extent, subject to seasonality during the year, which impacts quarterly net earnings, cash flows and funds from operations that affects the sequential comparison of our results in individual quarters over time. We have historically experienced higher utility costs in the first and third quarters of the year.

Segment Data

We operate in the following business segments: commercial, multifamily and third-party asset management and real estate services. Financial information related to these business segments for each of the three years in the period ended December 31, 2018 is set forth in Note 18 to our consolidated and combined financial statements included herein.

Tax Status

We have elected to be taxed as a REIT under Sections 856-860 of the Code. Under those sections, a REIT which distributes at least 90% of its REIT taxable income as dividends to its shareholders each year and which meets certain other conditions will not be taxed on that portion of its taxable income which is distributed to its shareholders. Prior to the Separation, Vornado operated as a REIT and distributed 100% of its REIT taxable income to its shareholders; accordingly, no provision for federal income taxes has been made in the accompanying financial statements for the periods prior to the Separation. We currently adhere and intend to continue to adhere to these requirements and to maintain our REIT status in future periods.

As a REIT, we can reduce our taxable income by distributing all or a portion of such taxable income to shareholders. Future distributions will be declared and paid at the discretion of our Board of Trustees and will depend upon cash generated by operating activities, our financial condition, capital requirements, annual dividend requirements under the REIT provisions of the Code and such other factors as our Board of Trustees deems relevant.

We also participate in the activities conducted by our subsidiary entities that have elected to be treated as taxable REIT subsidiaries ("TRS") under the Code. As such, we are subject to federal, state, and local taxes on the income from these activities. Income taxes attributable to our TRSs are accounted for under the asset and liability method. Under the asset and liability method, deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future.

Significant Tenants

Only the U.S. federal government accounted for 10% or more of our rental revenue, which consists of property rentals and tenant reimbursements, as follows:

(Dollars in thousands)	Year Ended December 31,		
	2018	2017	2016
Rental revenue from the U.S. federal government	\$ 94,822	\$ 92,192	\$ 103,864
Percentage of commercial segment rental revenue	22.0%	24.0%	29.1%
Percentage of total rental revenue	17.6%	19.4%	23.6%

Sustainable Business Strategy

Our business model prioritizes long-term growth. By investing in urban infill and transit-oriented development and strategically mixing high-quality multifamily and commercial buildings with public areas, retail spaces, and walkable streets, we are working to define neighborhoods that deliver benefits to the environment and our community, as well as long-term value to our shareholders.

We remain committed to transparency in our strategy and performance with a focus on operating efficiency, responding to evolving environmental and social trends, and delivering on the needs of our tenants and communities. This year we demonstrated this by:

- Achieving a 4-star rating in the Global Real Estate Sustainability Benchmark (GRESB) Real Estate Assessment, ranking second in our peer group and in the top 10 of all North American REITs
- Adding oversight of environmental and social matters to the Board of Trustees' Corporate Governance & Nominating Committee's charter

Our sustainability team works directly with individual departments to integrate our environmental sustainability, social responsibility and corporate governance ("ESG") principles throughout our operations and investment process. The sustainability team includes our Director of Sustainability and a Sustainability Analyst. The team is responsible for annual ESG reporting, maintaining building certifications and coordinating with industry and community partners.

To ensure that our ESG principles are fully integrated into our business practices, Steering Committees, including members of our management team, provide top-down support for the implementation of ESG initiatives. The ESG team provides our Board of Trustees Corporate Governance & Nominating Committee with periodic updates on ESG strategy.

Environmental

We believe that the efficient use of resources will result in sustainable long-term growth. Our portfolio of LEED and ENERGY STAR certified properties demonstrates our commitment to sustainable design and performance. As of December 31, 2018:

- 74% of all operating assets, based on square footage, have earned at least one green certification:
 - 6.6 million square feet of LEED Certified Commercial Space (59%)
 - 1.4 million square feet of LEED Certified Multifamily Space (36%)
 - 7.4 million square feet of ENERGY STAR Certified Commercial Space (65%)
 - 1.9 million square feet of ENERGY STAR Certified Multi-family Space (48%)

We have committed to improve the energy efficiency of our commercial operating portfolio by at least 20% over the next 10 years through the Department of Energy Better Buildings Challenge. Our 2017 data demonstrate improved energy performance by an average of 3.4% each year since 2014, which is consistent with a cumulative improvement of 10%, and is on track to meet or exceed the improvement goal by 2024.

We were named a 2018 Green Lease Leader by the Institute for Market Transformation (IMT) and the U.S. Department of Energy's (DOE) Better Buildings Alliance. Green Lease Leaders recognizes companies who utilize the leasing process to achieve better collaboration between landlords and tenants with the goal of reducing building energy consumption and operating costs. Our standard lease contains a cost recovery clause for resource efficiency-related capital improvements and requires tenants to provide data for measuring, managing, and reporting sustainability performance.

We take climate change, and the risks associated with climate change seriously, and we are committed to aligning our investment strategy with science. We stand with our communities, tenants, and fellow shareholders in supporting meaningful solutions that address this global challenge. To develop a more informed view of future climate conditions and further our understanding of the direct physical risks to our properties, we are conducting a climate risk assessment, which will include operating assets and land

holdings in our future development pipeline. The results of this assessment will be presented to senior management, and we expect it will inform our investment strategy moving forward.

Social Responsibility

We believe the strength of our entire community is central to sustaining the long-term value of our portfolio. We are committed to the economic development of the Washington region through continued investment in our projects and local communities. We recognize, however that new development also fosters challenging growth dynamics, with issues of social equity at the forefront. We strive to work alongside community members, leaders, and local and federal governments to appropriately respond to these challenges. The most recent example of our commitment is the WHI, which we launched in partnership with the Federal City Council. We have initially committed to make up to a \$10.0 million investment in WHI projects and added an Executive Vice President of Social Impact Investing to help manage these activities.

The WHI is a transformational market-driven approach to producing affordable workforce housing and creating sustainable, mixed-income communities. The WHI intends to bring together capital from private and philanthropic sources to preserve or build affordable housing in mixed-income communities. The initiatives' goals include:

- Preserving or building between 2,000 and 3,000 units of affordable workforce housing in the Washington D.C. region over the next decade; and
- Delivering triple bottom line results consisting of environmental and social objectives in addition to financial returns.

We recognize that diversity in our workforce brings valuable perspectives, views and ideas to our organization. We pride ourselves on our strong, collaborative culture, and we strive to create an inclusive and healthy work environment for our employees, which allows us to continue to attract innovative thinkers to our organization. Our workforce comprises 38% females and 52% minorities, and our senior leadership has 33% female representation. Our Board of Trustees comprises 17% females. Our Board of Trustees has made a long-term commitment to evolve in a direction that reflects the strength and diversity of our national labor force and establish an equal balance between men and women and one that reflects the diversity of our country.

To learn more about our ESG initiatives please visit JBGSMTIH.com/about/sustainability and download our Sustainability Report. Our Internet website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K.

Environmental Matters

Under various federal, state and local laws, ordinances and regulations, an owner of real estate is liable for the costs of removal or remediation of certain hazardous or toxic substances on such real estate. These laws often impose such liability without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances. The costs of remediation or removal of such substances may be substantial and the presence of such substances, or the failure to promptly remediate such substances, may adversely affect the owner's ability to sell such real estate or to borrow using such real estate as collateral. In connection with the ownership and operation of our assets, we may be potentially liable for such costs. The operations of current and former tenants at our assets have involved, or may have involved, the use of hazardous materials or generated hazardous wastes. The release of such hazardous materials and wastes could result in us incurring liabilities to remediate any resulting contamination. The presence of contamination or the failure to remediate contamination at our properties may (1) expose us to third-party liability (e.g., for cleanup costs, natural resource damages, bodily injury or property damage), (2) subject our properties to liens in favor of the government for damages and costs the government incurs in connection with the contamination, (3) impose restrictions on the manner in which a property may be used or businesses may be operated, or (4) materially adversely affect our ability to sell, lease or develop the real estate or to borrow using the real estate as collateral. In addition, our assets are exposed to the risk of contamination originating from other sources. While a property owner may not be responsible for remediating contamination that has migrated onsite from an identifiable and viable offsite source, the contaminant's presence can have adverse effects on operations and the redevelopment of our assets. To the extent we send contaminated materials to other locations for treatment or disposal, we may be liable for cleanup of those sites if they become contaminated.

Most of our assets have been subject, at some point, to environmental assessments that are intended to evaluate the environmental condition of the subject and surrounding assets. These environmental assessments generally have included a historical review, a public records review, a visual inspection of the site and surrounding assets, visual or historical evidence of underground storage tanks, and the preparation and issuance of a written report. Soil and/or groundwater subsurface testing is conducted at our assets, when necessary, to further investigate any issues raised by the initial assessment that could reasonably be expected to pose a material concern to the property or result in us incurring material environmental liabilities as a result of redevelopment. They may not, however, have included extensive sampling or subsurface investigations. In each case where the environmental assessments have identified conditions requiring remedial actions required by law, we have initiated appropriate actions. The environmental assessments did not reveal any material environmental contamination that we believe would have a material adverse effect on our

overall business, financial condition or results of operations, or that have not been anticipated and remediated during site redevelopment as required by law. Nevertheless, there can be no assurance that the identification of new areas of contamination, changes in the extent or known scope of contamination, the discovery of additional sites or changes in cleanup requirements would not result in significant cost to us.

Employees

Our headquarters are located at 4445 Willard Avenue, Suite 400, Chevy Chase, MD 20815. As of December 31, 2018, we had 914 employees.

Available Information

Copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports are available free of charge through our website (www.JBGSMITH.com) as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"). Also available on our website are copies of our Audit Committee Charter, Compensation Committee Charter, Corporate Governance and Nominating Committee Charter, Code of Business Conduct and Ethics and Corporate Governance Guidelines. In the event of any changes to these charters or the code or guidelines, changed copies will also be made available on our website. Copies of these documents are also available directly from us free of charge. Our website also includes other financial information, including certain financial measures not in compliance with accounting principles generally accepted in the United States ("GAAP"), none of which is a part of this Annual Report on Form 10-K. Copies of our filings under the Securities Exchange Act of 1934 are also available free of charge from us, upon request.

ITEM 1A. RISK FACTORS

You should carefully consider the following risks in evaluating our company and our common shares. If any of the following risks were to occur, our business, prospects, financial condition, results of operations, cash flow and the ability to make distributions to our shareholders could be materially and adversely affected, which we refer herein collectively as a "material adverse effect on us," the per share trading price of our common shares could decline significantly, and you could lose all or a part of your investment. Some statements in this Form 10-K, including statements in the following risk factors, constitute forward-looking statements. Refer to the section entitled "Cautionary Statement Concerning Forward-Looking Statements" for additional information regarding these forward-looking statements.

Risks Related to Our Business and Operations

Our portfolio of assets is geographically concentrated in the Washington, D.C. metropolitan area and submarkets therein, which makes us susceptible to regional and local adverse economic and other conditions such that an economic downturn affecting this area could have a material adverse effect on us.

All our assets are located in the Washington, D.C. metropolitan area. As a result, we are particularly susceptible to adverse economic or other conditions in this market (such as periods of economic slowdown or recession, business layoffs or downsizing, industry slowdowns, actual or anticipated federal government shutdowns, relocations of businesses, increases in real estate and other taxes, and the cost of complying with governmental regulations or increased regulation), as well as to natural disasters (including earthquakes, floods, storms and hurricanes), potentially adverse effects of "global warming" and other disruptions that occur in this market (such as terrorist activity or threats of terrorist activity and other events), any of which may have a greater impact on the value of our assets or on our operating results than if we owned a more geographically diverse portfolio. This market experienced an economic downturn in recent years. A similar or worse economic downturn in the future could have a material adverse effect on us. We cannot assure you that this market will grow or that underlying real estate fundamentals will be favorable to our asset classes or future development.

Moreover, the same risks that apply to the Washington, D.C. metropolitan area as a whole also apply to the individual submarkets where our assets are located. National Landing makes up 57.9% of our operating portfolio and 56.2% of our future development pipeline. Portions of our market, including National Landing, have underperformed other markets in the region with respect to rent growth and occupancy. Any adverse economic or other conditions in the Washington, D.C. metropolitan area, our submarkets, especially National Landing, or any decrease in demand for office, multifamily or retail assets could have a material adverse effect on us.

Our assets and the property development market in the Washington, D.C. metropolitan area are dependent on a metropolitan economy that is heavily reliant on federal government spending, and any actual or anticipated curtailment of such spending could have a material adverse effect on us.

The real estate and property development market in the Washington, D.C. metropolitan area is heavily dependent upon actual and anticipated federal government spending, and the professional services and other industries that support the federal government. Any actual or anticipated curtailment of federal government spending, whether due to an actual or potential change of presidential administration or control of Congress, actual or anticipated federal government sequestrations, furloughs or shutdowns, a slowdown of the U.S. and/or global economy or other factors, could have an adverse impact on real estate values and property development in the Washington, D.C. metropolitan area, on demand and willingness to enter into long-term contracts for office space by the federal government and companies dependent upon the federal government, as well as on occupancy rates and annualized rents of multifamily and retail assets by occupants or patrons whose employment is by or related to the federal government. For example, sequestration, which mainly impacted government contractors and federal government agencies, resulted in a large decrease in federal government spending, and the implementation of BRAC (Base Realignment and Closure), which shifted Department of Defense real estate from leased space to owned bases, contributed to 5.2 million square feet of occupancy losses in the Washington, D.C. metropolitan area from 2012 through 2014, mainly in Northern Virginia. Similar curtailments in federal spending or changes in federal leasing policy could occur in the future, which could have a material adverse effect on us.

Amazon's commitment to the selection of National Landing as Amazon HQ2 is conditional upon negotiating and executing definitive documentation with us. If we are not successful in executing definitive documentation, Amazon may determine not to proceed with the selection of National Landing as the site for Amazon HQ2, which would likely cause the market price of our common shares to decline.

While we and Amazon have entered into an agreement of exclusivity and negotiations regarding Amazon HQ2, this agreement does not obligate Amazon to consummate any transaction with us. We may not be successful in negotiating and executing definitive documentation with Amazon regarding the selection of National Landing and any of our properties as Amazon HQ2. Amazon has significant strength as a counterparty to negotiations of the definitive documentation related to the potential Amazon HQ2 and could make demands during the course of those negotiations that we determine to be unacceptable. If we are not successful in negotiating and executing definitive documentation regarding National Landing and our properties as Amazon HQ2, Amazon may determine not to proceed with the selection of National Landing as the site for Amazon HQ2, and the market price of our common shares would likely decline.

If Amazon invests less than the announced amounts in National Landing or makes such investment over a longer period, our ability to achieve the benefits associated with National Landing being selected as Amazon HQ2 could be adversely affected, which could have a material adverse effect on us and the market price of our common shares. Furthermore, the selection of National Landing for Amazon HQ2 could fail to achieve the anticipated collateral financial effect associated with that selection, which could have a material adverse effect on us and the market price of our common shares.

Even if Amazon and JBG SMITH enter into definitive documentation, and National Landing is conclusively determined as the site for Amazon HQ2, the benefits that might accrue to us may be less than we, financial or industry analysts or investors anticipate. For example, if Amazon invests less than the announced amounts in National Landing or makes such investment over a longer period than anticipated, our ability to achieve the benefits associated with National Landing being selected for Amazon HQ2 could be adversely affected. Furthermore, the selection of National Landing as Amazon HQ2 may not have the anticipated collateral financial effect associated with that selection. If we do not achieve the perceived benefits of such selection as rapidly or to the extent anticipated by us, financial or industry analysts or investors, we and potentially the market price of our common shares could be adversely affected.

We derive a significant portion of our revenues from U.S. federal government tenants.

In the year ended December 31, 2018, approximately 22.0% of the rental revenue from our commercial segment was generated by rentals to federal government tenants, and federal government tenants historically have been a significant source of new leasing for us. The occurrence of events that have a negative impact on the demand for federal government office space, such as a decrease in federal government payrolls or a change in policy that prevents governmental tenants from renting our office space, would have a much larger adverse effect on our revenues than a corresponding occurrence affecting other categories of tenants. If demand for federal government office space were to decline, it would be more difficult for us to lease our buildings and could reduce overall market demand and corresponding rental rates, all of which could have a material adverse effect on us.

We may face additional risks and costs associated with directly managing assets occupied by government tenants.

As of December 31, 2018, we owned 24 assets in which some or all the tenants were federal government agencies. Lease agreements with these federal government agencies contain provisions required by federal law, which require, among other things, that the lessor of the property, agree to comply with certain rules and regulations, including rules and regulations related to anti-kickback procedures, examination of records, audits and records, equal opportunity provisions, prohibition against segregated facilities, certain executive orders, subcontractor cost or pricing data, and certain provisions intending to assist small businesses. We directly manage assets with federal government agency tenants and, therefore, we are subject to additional risks associated with compliance with all applicable federal rules and regulations. In addition, there are certain additional requirements relating to the potential application of equal opportunity provisions and the related requirement to prepare written affirmative action plans applicable to government contractors and subcontractors. Some of the factors used to determine whether these requirements apply to a company that is affiliated with the actual government contractor (the legal entity that is the lessor under a lease with a federal government agency) include whether such company and the government contractor are under common ownership, have common management, and are under common control. We own the entity that is the government contractor and the property manager, increasing the risk that requirements of the Employment Standards Administration's Office of Federal Contract Compliance Programs and requirements to prepare affirmative action plans pursuant to the applicable executive order may be determined to be applicable to us. Compliance with these regulations is costly and any increase in regulation could increase our costs, which could have a material adverse effect on us.

Capital markets and economic conditions can materially affect our liquidity, financial condition and results of operations, as well as the value of our debt and equity securities.

There are many factors that can affect the value of our equity securities and any debt securities we may issue in the future, including the state of the capital markets and the economy. Demand for office space may decline nationwide as it did in 2008 and 2009, due to an economic downturn, bankruptcies, downsizing, layoffs and cost cutting. Government action or inaction may adversely affect the state of the capital markets. The cost and availability of credit may be adversely affected by illiquid credit markets and wider credit spreads, which may adversely affect our liquidity and financial condition, including our results of operations, and the liquidity and financial condition of our tenants. Our inability or the inability of our tenants to timely refinance maturing liabilities and access the capital markets to meet liquidity needs may materially affect our financial condition and results of operations and the value of our equity securities and any debt securities we may issue in the future.

We are exposed to risks associated with real estate development and redevelopment, such as unanticipated expenses, delays and other contingencies, any of which could have a material adverse effect on us.

Real estate development and redevelopment activities are a critical element of our business strategy, and we expect to engage in such activities with respect to certain of our properties and with properties that we may acquire in the future. To the extent that we do so, we will be subject to certain risks, including, without limitation:

- construction or redevelopment costs of a project may exceed original estimates, possibly making the project less profitable than originally estimated, or unprofitable;
- time required to complete the construction or redevelopment of a project or to lease-up the completed project may be greater than originally anticipated, thereby adversely affecting our cash flow and liquidity;
- contractor and subcontractor disputes, strikes, labor disputes, weather conditions or supply disruptions;
- failure to achieve expected occupancy and/or rent levels within the projected time frame, if at all;
- delays with respect to obtaining, or the inability to obtain, necessary zoning, occupancy, land use and other governmental permits, and changes in zoning and land use laws;
- occupancy rates and rents of a completed project may not be sufficient to make the project profitable;
- incurrence of design, permitting and other development costs for opportunities that we ultimately abandon;
- the ability of prospective real estate venture partners or buyers of our properties to obtain financing; and
- the availability and pricing of financing to fund our development activities on favorable terms or at all.

Furthermore, if we develop assets in new markets or asset classes where we do not have the same level of market knowledge or experience as with our current markets and asset classes, then we may experience weaker than anticipated performance. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent the initiation or the completion of development or redevelopment activities, any of which could have a material adverse effect on us.

We may be unable to identify and complete acquisitions of properties that meet our criteria, which may impede our growth.

Our business strategy includes the acquisition of office, multifamily and retail properties and properties to be held for development, including in connection with like-kind exchanges under the tax code. We evaluate the market for suitable acquisition candidates or investment opportunities that meet our criteria and are compatible with our growth strategies. However, we may be unable to acquire properties identified as potential acquisition opportunities on favorable terms, or at all. We may incur significant costs and divert management attention in connection with evaluating and negotiating potential acquisitions, including ones that we are subsequently unable to complete. If we are unable to complete planned like-kind exchanges using proceeds from asset dispositions, we will be required to distribute to our shareholders those proceeds rather than reinvest them to grow our portfolio. Even if we enter into agreements for the acquisition of properties, these agreements are subject to customary conditions to closing, including the completion of due diligence investigations and other conditions that are not within our control, which may not be satisfied. In addition, we may be unable to finance the acquisition on favorable terms or at all. Furthermore, if we acquire assets in new markets or asset classes where we do not have the same level of market knowledge or experience as with our current markets and asset classes, then we may experience weaker than anticipated performance. Our inability to identify, negotiate, finance or consummate property acquisitions, or acquire properties on favorable terms, or at all, could impede our growth and have a material adverse effect on us.

Our future acquisitions may not yield the returns we expect, and we may otherwise be unable to operate acquired properties to meet our financial expectations, which could have a material adverse effect on us.

Our future acquisitions and our ability to successfully operate the properties we acquire in such acquisitions may expose us to the following significant risks:

- even if we are able to acquire a desired property, competition from other potential acquirers may significantly increase the purchase price;
- we may acquire properties that are not accretive to our results upon acquisition, and we may not be able to successfully manage and lease those properties to meet our expectations;
- we may spend more than budgeted amounts to make necessary improvements or renovations to acquired properties;
- we may be unable to integrate new acquisitions quickly and efficiently, particularly acquisitions of portfolios of properties, into our existing operations, and, as a result, our results of operations and financial condition could be adversely affected;
- market conditions may result in higher than expected vacancy rates and lower than expected rental rates; and
- we may acquire properties subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities, such as liabilities for clean-up of undisclosed environmental contamination, claims by tenants, vendors or other persons dealing with the former owners of such properties, liabilities incurred in the ordinary course of business and claims for indemnification by general partners, trustees, officers and others indemnified by the former owners of such properties.

If our future acquisitions do not yield the returns we expect, and we are otherwise unable to operate acquired properties to meet our financial expectations, it could have a material adverse effect on us.

We may not be able to control our operating expenses, or our operating expenses may remain constant or increase, even if our revenues do not increase, which could have a material adverse effect on us.

Operating expenses associated with owning a property include real estate taxes, insurance, loan payments, maintenance, repair and renovation costs, the cost of compliance with governmental regulation (including zoning) and the potential for liability under applicable laws. If our operating expenses increase, our results of operations may be adversely affected. Moreover, operating expenses are not necessarily reduced when circumstances such as market factors, competition or reduced occupancy cause a reduction in revenues from the property. As a result, if revenues decline, we may not be able to reduce our operating expenses associated with the property. An increase in operating expenses or the inability to reduce operating expenses commensurate with revenue reductions could have a material adverse effect on us.

Partnership or real estate venture investments could be adversely affected by our lack of sole decision-making authority, our reliance on partners' or co-venturers' financial condition and disputes between us and our partners or co-venturers, which could have a material adverse effect on us.

As of December 31, 2018, approximately 9.9% of our assets measured by total square feet were held through real estate ventures, and we expect to co-invest in the future with other third parties through partnerships, real estate ventures or other entities, acquiring noncontrolling interests in or sharing responsibility for managing the affairs of a property, partnership, real estate venture or other

entity. In particular, we expect to use real estate ventures as a significant source of equity capital to fund our development strategy. Consequently, with respect to any such third-party arrangement, we would not be in a position to exercise sole decision-making authority regarding the property, partnership, real estate venture or other entity, or structure of ownership and may, under certain circumstances, be exposed to risks not present were a third party not involved, including the possibility that partners or co-venturers might become bankrupt or fail to fund their share of required capital contributions, and we may be forced to make contributions to maintain the value of the property. Partners or co-venturers may have economic or other business interests or goals that are inconsistent with our business interests or goals and may be in a position to take action or withhold consent contrary to our policies or objectives. In some instances, partners or co-venturers may have competing interests in our markets that could create conflict of interest issues. These investments may also have the potential risk of impasses on decisions, such as a sale, because neither we nor the partner or co-venturer would have full control over the partnership or real estate venture. We and our respective partners or co-venturers may each have the right to trigger a buy-sell right or forced sale arrangement, which could cause us to sell our interest, or acquire our partners' or co-venturers' interest, or to sell the underlying asset, either on unfavorable terms or at a time when we otherwise would not have initiated such a transaction. In addition, a sale or transfer by us to a third party of our interests in the partnership or real estate venture may be subject to consent rights or rights of first refusal in favor of our partners or co-venturers, which would in each case restrict our ability to dispose of our interest in the partnership or real estate venture. Where we are a limited partner or non-managing member in any partnership or limited liability company, if the entity takes or expects to take actions that could jeopardize our status as a REIT or require us to pay tax, we may be forced to dispose of our interest in that entity, including by contributing our interest to a subsidiary of ours that is subject to corporate level income tax. Disputes between us and partners or co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and/or trustees from focusing their time and effort on our business. Consequently, actions by or disputes with partners or co-venturers might result in subjecting assets owned by the partnership or real estate venture to additional risk. In addition, we may in certain circumstances be liable for the actions of our third-party partners or co-venturers. Our real estate ventures may be subject to debt, and the refinancing of such debt may require equity capital calls. We will review the qualifications and previous experience of any partners and co-venturers, although we may not obtain financial information from, or undertake independent investigations with respect to, prospective partners or co-venturers. In addition, any cash distributions from real estate ventures will be subject to the operating agreements of the real estate ventures, which may limit distributions, the timing of distributions or specify certain preferential distributions among the respective parties. The occurrence of any of the risks described above could have a material adverse effect on us.

We may be unable to renew leases, lease vacant space or re-let space as leases expire, or do so on favorable terms, which could have a material adverse effect on us.

As of December 31, 2018, leases representing 8.0% of our share of the office and retail square footage in our Operating Portfolio will expire during the year ending December 31, 2019 and 13.8% of our share of the square footage of the assets in our commercial portfolio was unoccupied and not generating rent. We cannot assure you that expiring leases will be renewed or that our assets will be re-let at rental rates equal to or above current average rental rates or that substantial free rent, tenant improvements, early termination rights or below-market renewal options will not be offered to attract new tenants or retain existing tenants.

In addition, our ability to lease our multifamily assets at favorable rates, or at all, may be adversely affected by any increase in supply and/or deterioration in the multifamily market, which is dependent upon the overall level of spending in the economy; and spending is adversely affected by, among other things, job losses and unemployment levels, recession, personal debt levels, housing market conditions, stock market volatility and uncertainty about the future.

If the rental rates on new leases at our assets decrease, our existing tenants do not renew their leases, or we do not re-let a significant portion of our available space and space for which leases expire, it could have a material adverse effect on us.

We depend on major tenants in our commercial portfolio, and the bankruptcy, insolvency or inability to pay rent of any of these tenants could have a material adverse effect on us.

As of December 31, 2018, the 20 largest office and retail tenants in our operating portfolio represented approximately 54.9% of our share of total annualized office and retail rent. In many cases, through tenant improvement allowances and other concessions, we have made substantial upfront investments in leases with our major tenants that we may not recover if they fail to pay rent through the end of the lease term.

The inability of a major tenant to pay rent, or the bankruptcy or insolvency of a major tenant, may adversely affect the income produced by our Operating Portfolio. If a tenant becomes bankrupt or insolvent, federal law may prohibit us from evicting such tenant based solely upon such bankruptcy or insolvency. In addition, a bankrupt or insolvent tenant may be authorized to reject and terminate its lease with us. If a lease is rejected by a tenant in bankruptcy, we may have only a general unsecured claim for damages that is limited in amount and may only be paid to the extent that funds are available and in the same percentage as is paid

to all other holders of unsecured claims. Moreover, any claim against this tenant for unpaid, future rent would be subject to a statutory cap that might be substantially less than the remaining rent owed under the lease.

If any of our major tenants were to experience a downturn in its business, or a weakening of its financial condition resulting in its failure to make timely rental payments or causing it to default under its lease, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment. Any such event could have a material adverse effect on us.

We derive a significant portion of our revenues from five of our assets.

As of December 31, 2018, five of our assets in the aggregate generated approximately 27% of our share of annualized rent. The occurrence of events that have a negative impact on one or more of these assets, such as a natural disaster that damages one or more of these assets, would have a much larger adverse effect on our revenues than a corresponding occurrence affecting a less significant property. A substantial decline in the revenues generated by one or more of these assets could have a material adverse effect on us.

We derive most of our revenues from commercial assets and are subject to risks that affect the businesses of our commercial tenants, which are generally financial, legal and other professional firms as well as the federal government and defense contractors.

As of December 31, 2018, our 46 operating commercial assets generated approximately 78.6% of our share of annualized rent. As a result, the occurrence of events that have a negative impact on the market for office space, such as increased unemployment in the Washington, D.C. metropolitan area, would have a much larger adverse effect on our revenues than a corresponding occurrence affecting our multifamily segment. Our office tenants are generally financial, legal and other professional firms, as well as the federal government and defense contractors. Consequently, we are subject to factors that affect the financial, legal and professional services industries or the federal government generally, including the state of the economy, stock market volatility, and the level of unemployment. These factors could adversely affect the financial condition of our office tenants and the willingness of firms to lease space in our office buildings, which in turn could have a material adverse effect on us.

Some of our assets depend on anchor or major retail tenants to attract shoppers and could be adversely affected by the loss of, or a store closure by, one or more of these tenants.

Some of our assets are anchored by large, nationally recognized tenants. These tenants may experience a downturn in their business that may significantly weaken their financial condition. As a result, these tenants may fail to comply with their contractual obligations to us, seek concessions to continue operations or declare bankruptcy, any of which could result in the termination of these tenants' leases. In addition, some of our tenants may cease operations at stores in our assets while continuing to pay rent. Moreover, mergers or consolidations among large retail establishments could result in the closure of existing stores or duplicate or geographically overlapping store locations, which could include stores at our assets.

Loss of, or a store closure by, an anchor or significant tenant could decrease customer traffic, thereby decreasing sales for our other tenants at the applicable retail property. If sales of our other tenants decrease, they may be unable to pay their minimum rents or expense recovery charges. These circumstances may significantly reduce our occupancy level or the rent we receive from our retail assets, and we may not have the right to re-lease vacated space or we may be unable to re-lease vacated space at attractive rents or at all. Moreover, if a significant tenant or anchor store defaults, we may experience delays and costs in enforcing our rights as landlord to recover amounts due to us under the terms of our agreements with those parties.

The occurrence of any of the situations described above, particularly if it involves an anchor or major tenant with leases in multiple locations, could have a material adverse effect on us.

Our Placemaking business model depends in significant part on a retail component, which frequently involves retail assets embedded or adjacent to our commercial and/or multifamily assets, making us subject to risks that affect the retail environment generally, such as competition from discount and online retailers, weakness in the economy, consumer spending and the financial condition of large retail companies, any of which could adversely affect market rents for retail space and the willingness or ability of retailers to lease space in our retail assets.

We own and operate retail real estate assets and, consequently, are subject to factors that affect the retail environment generally, as well as the market for retail space. The retail environment and the market for retail space have previously been, and continue to be, adversely affected by increasing competition from online retailers and other online businesses. Additionally, discount retailers and outlet malls, weakness in national, regional and local economies, consumer spending and consumer confidence, adverse

financial condition of some large retailing companies, ongoing consolidation in the retail sector and an excess amount of retail space in a number of markets could also adversely affect our retail assets. Increases in online consumer spending may significantly affect our retail tenants' ability to generate sales in their stores. This inability to generate sales may cause retailers to, among other things, close stores, decrease the size of new or existing stores, ask for concessions or go bankrupt, all of which could have a material adverse effect on us.

Additionally, our Placemaking model depends in significant part on a retail component, which frequently involves retail assets embedded in or adjacent to our office and/or multifamily assets and if our retail assets lose tenants, whether to the proliferation of e-commerce business or otherwise, it could have a material adverse effect on us.

If we fail to reinvest in and redevelop our assets to maintain their attractiveness to retailers and shoppers, then retailers or shoppers may perceive that shopping at other venues or online is more convenient, cost-effective or otherwise more attractive, which could negatively affect our ability to rent retail space at our assets.

Any of the foregoing factors could adversely affect the financial condition of our retail tenants, the willingness of retailers to lease space from us, and the success of our Placemaking business model, which could have a material adverse effect on us.

The composition of our portfolio by asset type may change over time, which could expose us to different asset class risks than if our portfolio composition remained static.

We own commercial and multifamily assets, with commercial representing 78.6% of our annualized rent and 74.3% of our portfolio based on square footage. Therefore, our results of operations are more affected by conditions in the commercial market than markets for other asset types. If the composition of our portfolio changes, however, then we would become more exposed to the risks and markets of other asset classes. Under our current business plan, we expect that multifamily assets will become a greater proportion of our portfolio. If we are successful in executing the current business plan, then we will become more exposed to the risks of the multifamily markets, and we may not manage those assets as well as our commercial assets, any of which could have a material adverse effect on us.

We may be adversely affected by trends in the office real estate industry.

Telecommuting, flexible work schedules, open workplaces, teleconferencing and the use of artificial intelligence are becoming more common. These practices enable businesses to reduce their space requirements. There is also an increasing trend among some businesses to utilize shared office spaces and co-working spaces. A continuation of the movement toward these practices could over time erode the overall demand for office space and, in turn, place downward pressure on occupancy, rental rates and property valuations.

Increased affordability of residential homes and other competition for tenants of our multifamily properties could affect our ability to retain current residents of our multifamily properties, attract new ones or increase or maintain rents, which could adversely affect our results of operations and our financial condition.

Our multifamily properties compete with numerous housing alternatives in attracting residents, including owner occupied single and multifamily homes. Occupancy levels and market rents may be adversely affected by national and local political, economic and market conditions including, without limitation, new construction and excess inventory of multifamily and owned housing/condominiums, increasing portions of owned housing/condominium stock being converted to rental use, rental housing subsidized by the government, other government programs that favor single family rental housing or owner occupied housing over multifamily rental housing, governmental regulations, slow or negative employment growth and household formation, the availability of low-interest mortgages or the availability of mortgages requiring little or no down payment for single family home buyers, changes in social preferences and the potential for geopolitical instability, all of which are beyond our control. Finally, the federal government's policies, many of which may encourage home ownership, can increase competition, possibly limit our ability to raise rents in our markets and lower the value of our properties. Competitive housing and increased affordability of owner occupied single and multifamily homes caused by lower housing prices, an influx of supply of such housing alternatives, attractive mortgage interest rates and government programs to promote home ownership could adversely affect our ability to retain our current residents, attract new ones or increase or maintain rents, which could adversely affect our results of operations and our financial condition.

Real estate is a competitive business.

We compete with numerous acquirers, developers, owners and operators of commercial real estate including other REITs, private real estate funds, domestic and foreign financial institutions, life insurance companies, pension trusts, partnerships and individual investors, some of which may have greater financial resources and be willing to accept lower returns on their investments than we are. The principal means of competition in leasing are lease terms (including rent charged and tenant improvement allowances), location, services provided and the nature and condition of the asset to be leased. If our competitors offer space at rental rates below current market rates, below the rental rates we currently charge our tenants, in better locations within our markets, in higher quality assets or offer better services, we may lose potential tenants and we may be pressured to reduce our rental rates below those we currently charge to retain tenants when our tenants' leases expire.

Our success depends upon, among other factors, trends of the global, national, regional and local economies, the financial condition and operating results of current and prospective tenants and customers, availability and cost of capital, construction and renovation costs, taxes, governmental regulations, legislation and population and employment trends.

We depend on leasing space to tenants on economically favorable terms and collecting rent from tenants who may not be able to pay.

Our financial results depend significantly on leasing space in our assets to tenants on economically favorable terms. In addition, because most of our income is derived from renting real property, our income, funds available to pay indebtedness and funds available for distribution to shareholders will decrease if our tenants cannot pay their rent or if we are not able to maintain occupancy levels on favorable terms. If a tenant does not pay its rent, we might not be able to enforce our rights as landlord without delays and might incur substantial legal and other costs. During periods of economic adversity, there may be an increase in the number of tenants that cannot pay their rent and an increase in vacancy rates, which could have a material adverse effect on us.

We may find it necessary to make rent or other concessions and/or significant capital expenditures to improve our assets to retain and attract tenants, which could have a material adverse effect on us.

We may find it necessary to make rent or other concessions to tenants, accommodate requests for renovations, build-to-suit remodeling and other improvements or provide additional services to our tenants. As a result, we may have to make significant capital or other expenditures to retain tenants whose leases expire and to attract new tenants in sufficient numbers. If the necessary capital is unavailable, we may be unable to make such expenditures. This could result in non-renewals by tenants upon expiration of their leases and our vacant space remaining untenanted, which could have a material adverse effect on us.

Affordable housing and tenant protection regulations may limit our ability to increase rents and pass through new or increased operating expenses to our tenants.

Certain states and municipalities have adopted laws and regulations imposing restrictions on the timing or amount of rent increases and other tenant protections. As of December 31, 2018, approximately 5% of the multifamily units in our Operating Portfolio were designated as affordable housing. In addition, Washington, D.C. and Montgomery County, Maryland have laws that require, in certain circumstances, an owner of a multifamily rental property to allow tenant organizations the option to purchase the building at a market price if the owner attempts to sell the property. We expect to continue operating and acquiring assets in areas that either are subject to these types of laws or regulations or where such laws or regulations may be enacted in the future. Such laws and regulations limit our ability to charge market rents, increase rents, evict tenants or recover increases in our operating expenses and could make it more difficult for us to dispose of assets in certain circumstances.

Our success depends on our senior management team whose continued service is not guaranteed, and the loss of one or more of these persons could adversely affect our ability to manage our business and to implement our growth strategies or could create a negative perception in the capital markets.

Our success and our ability to implement and manage anticipated future growth depend, in large part, upon the efforts of our senior management team, who have extensive market knowledge and relationships, and exercise substantial influence over our operational, financing, acquisition and disposition activity. Members of our senior management team have national or regional industry reputations that attract business and investment opportunities and assist us in negotiations with lenders, existing and potential tenants and other industry participants. The loss of services of one or more members of our senior management team, or our inability to attract and retain similarly qualified personnel, could adversely affect our business, diminish our investment opportunities and weaken our relationships with lenders, business partners, existing and prospective tenants and industry participants, which could have a material adverse effect on us.

The actual density of our future development pipeline and/or any particular future development parcel may not be consistent with our estimated potential development density.

As of December 31, 2018, we estimate that our 41 future development assets will total approximately 23.1 million square feet (19.6 million square feet at our share) of estimated potential development density. We caution you not to place undue reliance on the potential development density estimates for our future development pipeline and/or any particular future development parcel because they are based solely on our estimates, using data available to us, and our business plans as of December 31, 2018. The actual density of our future development pipeline and/or any particular future development parcel may differ substantially from our estimates based on numerous factors, including our inability to obtain necessary zoning, land use and other required entitlements, legal challenges to our plans by activists and others, as well as building, occupancy and other required governmental permits and authorizations, and changes in the entitlement, permitting and authorization processes that restrict or delay our ability to develop, redevelop or use our future development pipeline at anticipated density levels. Moreover, we may strategically choose not to develop, redevelop or use our future development pipeline to its maximum potential development density or may be unable to do so as a result of factors beyond our control, including our ability to obtain financing on terms and conditions that we find acceptable, or at all, to fund our development activities. We can provide no assurance that the actual density of our future development pipeline and/or any particular future development parcel will be consistent with our estimated potential development density.

We may not be able to realize potential incremental annualized rent from our commercial, multifamily or other lease-up opportunities.

Based on current market demand in our submarkets and the efforts of our dedicated in-house leasing teams, we believe we can increase our occupancy and revenue at certain office, multifamily and retail assets. However, we cannot assure you that we will be able to realize potential incremental annualized rent from our commercial, multifamily or other lease-up opportunities. Our ability to increase our occupancy and revenue at certain commercial, multifamily and other assets may be adversely affected by an increase in supply and/or deterioration in the commercial, multifamily or other markets. In addition, if our competitors offer space at rental rates below current asking rates or below our in-place rates, we may experience difficulties attracting new tenants or retaining existing tenants and may be pressured to reduce our rental rates below those we currently charge or to offer more substantial free rent, tenant improvements, early termination rights or below-market renewal options in order to attract or retain tenants. We caution you not to place undue reliance on our belief that we can increase our occupancy and revenue at certain office, multifamily and retail assets.

Revenues from our third-party asset management and real estate services business may decline more quickly than expected, which could have a material adverse effect on us.

Our third-party asset management and real estate services business provides fee-based real estate services to third parties and the JBG Legacy Funds. Our expectation is that the fund portion of this business will wind down over the next several years, but the wind down could accelerate, and the business could be less profitable than anticipated. Although we expect to receive fees for the services provided to the JBG Legacy Funds as they wind down, the amount of those fees will decrease significantly as the number of assets under management is reduced. In addition to reduced revenue, if we cannot reduce our general and administrative expenses to correspond to the decreasing asset management fees, our profitability will be negatively affected. While we expect significant fees from acting as developer and property manager for Amazon HQ2, these fees may be less than expected. Fees from management of real estate ventures and third parties may also be negatively affected if management or development contracts are terminated or if we are unable to secure new sources of fee-based revenue. Any of the foregoing could have a material adverse effect on us.

We may from time to time be subject to litigation, which could have a material adverse effect on us.

We are a party to various claims and routine litigation arising in the ordinary course of business. Some of these claims or others to which we may be subject from time to time may result in defense costs, settlements, fines or judgments against us, some of which are not, or cannot be, covered by insurance. Payment of any such costs, settlements, fines or judgments that are not insured could have a material adverse effect on us. In addition, certain litigation or the resolution of certain litigation may affect the availability or cost of some of our insurance coverage, which could adversely impact our results of operations and cash flow, expose us to increased risks that would be uninsured, and/or adversely impact our ability to attract officers and trustees.

Some of our potential losses may not be covered by insurance.

We maintain general liability insurance as well as all-risk property and rental value insurance coverage, with sub-limits for certain perils such as floods and earthquakes on each of our properties. However, there can be no assurance that losses incurred by us will be covered by these insurance policies. We maintain coverage for terrorism acts including terrorism involving nuclear, biological, chemical and radiological terrorism events, as defined by the Terrorism Risk Insurance Program Reauthorization Act, which expires

in December 2020. We will continue to monitor the state of the insurance market and the scope and costs of coverage for acts of terrorism. However, we cannot provide assurance that such coverage will be available on commercially reasonable terms in the future.

Our mortgage loans are generally non-recourse and contain customary covenants requiring adequate insurance coverage. Although we believe that we currently have adequate insurance coverage for purposes of these agreements, we may not be able to obtain an equivalent amount of coverage at reasonable costs in the future. If lenders insist on greater coverage than we can obtain, it could adversely affect the ability to finance or refinance the properties.

Compliance or failure to comply with the Americans with Disabilities Act or other safety regulations and requirements could result in substantial costs.

The Americans with Disabilities Act ("ADA") generally requires that public buildings, including our assets, meet certain federal requirements related to access and use by disabled persons. Noncompliance could result in the imposition of fines by the federal government or the award of damages to private litigants and/or legal fees to their counsel. If, under the ADA, we are required to make substantial alterations and capital expenditures in one or more of our assets, including the removal of access barriers, it could have a material adverse effect on us.

Our assets are subject to various federal, state and local regulatory requirements, such as state and local fire and life safety requirements. If we fail to comply with these requirements, we could incur fines or private damage awards. We do not know whether existing requirements will change or whether compliance with future requirements will require significant unanticipated expenditures that will affect our cash flow and results of operations.

Terrorist attacks, such as those of September 11, 2001, may adversely affect the value of our assets and our ability to generate revenue.

Our assets are in the Washington, D.C. metropolitan area, which has been and may be in the future the target of actual or threatened terrorism activity. As a result, some tenants in this market may choose to relocate their businesses to other markets or to lower-profile office buildings within this market that may be perceived to be less likely targets of future terrorist activity. This could result in an overall decrease in the demand for office space in this market generally or in our assets in particular, which could increase vacancies in our assets or necessitate that we lease our assets on less favorable terms or both. In addition, future terrorist attacks in the Washington, D.C. metropolitan area could directly or indirectly damage our assets, both physically and financially, or cause losses that materially exceed our insurance coverage. Properties that are occupied by federal government tenants may be more likely to be the target of a future attack. As of December 31, 2018, 24 of our assets had federal government agencies as tenants. As a result of the foregoing, the value of our assets and our ability to generate revenues could decline materially, which could have a material adverse effect on us.

If one of our tenants were designated a "Prohibited Person" by the Office of Foreign Assets Control, we could be materially adversely affected.

Pursuant to Executive Order 13224 and other laws, the Office of Foreign Assets Control of the United States Department of the Treasury ("OFAC") maintains a list of persons designated as terrorists or who are otherwise blocked or banned ("Prohibited Persons") from conducting business or engaging in transactions in the United States and thereby restricts our doing business with such persons. In addition, our leases, loans and other agreements may require us to comply with OFAC and related requirements, and any failure to do so may result in a breach of such agreements. If a tenant or other party with whom we conduct business is placed on the OFAC list or is otherwise a party with whom we are prohibited from doing business, we may be required to terminate the lease or other agreement. Any such termination could result in a loss of revenue and negative publicity and could otherwise have a material adverse effect on us.

Our business and operations would suffer in the event of system failures.

Despite system redundancy, the implementation of security measures and the existence of a disaster recovery plan for our internal information technology systems, our systems are vulnerable to damages from any number of sources, including computer viruses, unauthorized access, energy blackouts, natural disasters, terrorism, war and telecommunication failures. Any system failure or accident that causes interruptions in our operations could result in a material disruption to our business. We may also incur additional costs to remedy damages caused by such disruptions. Any of the foregoing could have a material adverse effect on us.

The occurrence of cyber incidents, or a deficiency in our cybersecurity, could negatively impact our business by causing a disruption to our operations, a compromise or corruption of our confidential information, regulatory enforcement and other legal proceedings and/or damage to our business relationships, all of which could negatively impact our financial results.

A cyber incident is any adverse event that threatens the confidentiality, integrity, or availability of our information resources. More specifically, a cyber incident is an intentional attack or an unintentional event that can include unauthorized persons gaining access to systems to disrupt operations, corrupt data, or steal confidential information. As our reliance on technology has increased, so have the risks posed to our systems, both internal and those we have outsourced. Our primary risks that could directly result from the occurrence of a cyber incident are theft of assets; operational interruption; regulatory enforcement, lawsuits and other legal proceedings; damage to our relationship with our tenants; and private data exposure. We have implemented processes, procedures and controls to help mitigate these risks, but despite these measures and our increased awareness of a risk of a cyber incident, a cyber incident could have a material adverse effect on us.

We have a limited operating history as a REIT and may not be able to successfully operate as a REIT.

We have a limited operating history as a REIT. We cannot assure you that the experience of our senior management team will be sufficient to successfully operate our company as a REIT. We have control systems and procedures to maintain our qualification as a REIT, and these efforts could place a significant strain on our management systems, infrastructure and other resources. Failure to maintain our qualification as a REIT would have a material adverse effect on us.

Risks Related to the Formation Transaction

We have a limited history operating as an independent company, and our historical financial information is not necessarily representative of the results that we would have achieved as a separate, publicly traded company and may not be a reliable indicator of our future results.

The historical information included herein covering periods prior to the Formation Transaction refers to our business as operated by Vornado and JBG separately from each other. Our historical financial information included herein covering periods prior to the Formation Transaction is derived from the consolidated financial statements and accounting records of Vornado and does not include the results of the assets contributed by JBG for any period prior to completion of the Formation Transaction. Accordingly, the historical financial information included herein does not necessarily reflect the financial condition, results of operations or cash flows that we would have achieved as a separate, publicly traded company during the periods presented or those that we will achieve in the future. Factors that could cause our results to differ from those reflected in our historical financial information and which may adversely impact our ability to receive similar results in the future may include, but are not limited to, the following:

- Prior to the Formation Transaction in July 2017, our business was operated by Vornado or JBG, as applicable, as part of their broader organizations, rather than as an independent company. Vornado and JBG performed various management functions for our business, such as accounting, information technology and finance. Our financial statements for all periods prior to the Formation Transaction reflect allocations of expenses from Vornado for such functions and those allocations may be less than the expenses we would have incurred had we operated as a separate, publicly traded company. We entered into certain transition and other separation-related agreements with Vornado, which specified a term of up to 24 months following the Formation Transaction for the services provided to us under the Transition Services Agreement. As of December 31, 2018, transition services we receive from Vornado are insignificant. We are continuing to make investments in our systems, infrastructure and personnel and the cost of the functions necessary to operate as a separate, publicly traded company may be higher than the allocated cost of the services provided by Vornado;
- Prior to the Formation Transaction, our working capital requirements and capital for our general business purposes, including acquisitions and capital expenditures, have historically been satisfied as part of the company-wide cash management policies of Vornado or of JBG, as applicable. We expect to seek additional financing from banks, through public offerings or private placements of debt or equity securities, strategic relationships or other arrangements, which may not be on terms as favorable to those obtained by Vornado or JBG, and the cost of capital for our business may be higher than Vornado's or JBG's cost of capital prior to the Formation Transaction; and
- As a separate public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act and the Dodd-Frank Act and are required to prepare our financial statements according to the rules and regulations required by the SEC. We cannot assure you that the past experience of our senior management team will be sufficient to successfully operate as a publicly traded company.

Other significant changes may occur in our cost structure, management, financing and business operations as a result of operating as an independent company. For additional information about the past financial performance of our business and the basis of

presentation of the historical combined financial statements, refer to "Selected Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the historical financial statements and accompanying notes included herein.

We could be required to indemnify Vornado for certain material tax obligations that could arise as addressed in the Tax Matters Agreement.

The Tax Matters Agreement that we entered into with Vornado provides special rules that allocate tax liabilities if the distribution of JBG SMITH shares by Vornado, together with certain related transactions, is not tax-free. Under the Tax Matters Agreement, we may be required to indemnify Vornado against any taxes and related amounts and costs resulting from (i) an acquisition of all or a portion of our equity securities or our assets, whether by merger or otherwise, (ii) other actions or failures to act by us, or (iii) any of our representations or undertakings being incorrect or violated. In addition, under the Tax Matters Agreement, we are liable for any taxes attributable to us and our subsidiaries, unless such taxes are imposed on us or any of the REITs contributed by Vornado (i) with respect to a period before the distribution as a result of any action taken by Vornado after the distribution, or (ii) with respect to any period as a result of Vornado's failure to qualify as a REIT for the taxable year of Vornado that includes the distribution.

Unless Vornado and JBG SMITH are both REITs immediately after the distribution of JBG SMITH from Vornado and at all times during the two years thereafter, JBG SMITH could be required to recognize certain corporate-level gains for tax purposes.

Section 355(h) of the Code provides that tax-free treatment will not be available unless, as relevant here, Vornado and JBG SMITH are both REITs immediately after the distribution.

In addition, the Treasury Department and the IRS have released temporary Treasury regulations pursuant to which, subject to certain exceptions, a REIT must recognize corporate-level gain if it acquires property from a non-REIT "C" corporation in certain so-called "conversion" transactions and engages in a Section 355 transaction within ten years of such conversion. For this purpose, a conversion transaction refers to the qualification of a non-REIT "C" corporation as a REIT or the transfer of property owned by a non-REIT "C" corporation to a REIT. JBG SMITH or its subsidiaries have acquired property pursuant to conversion transactions within ten years of the distribution. One of the exceptions to the recognition of corporate-level gain applies to a distribution described in Section 355 of the Code in which the distributing corporation and the controlled corporation are both REITs immediately after such distribution and at all times during the two years thereafter.

We believe that each of Vornado and JBG SMITH qualifies as a REIT and intends to operate in a manner so that each qualified immediately after the distribution and will qualify at all times during the two years after the distribution. However, if either Vornado or JBG SMITH failed to qualify as a REIT immediately after the distribution of JBG SMITH from Vornado or fails to qualify at any time during the two years after the distribution, then, for our taxable year that includes the distribution, the IRS may assert that JBG SMITH would have to recognize corporate-level gain on assets acquired in conversion transactions. The Treasury Department recently issued a notice identifying the temporary Treasury regulations as a significant tax regulation that imposes an undue financial burden on U.S. taxpayers and/or adds undue complexity to the federal tax laws, pursuant to Executive Order 13789 (issued April 21, 2017). In its two reports to the President pursuant to Executive Order 13789, the Treasury Department has indicated that it intends to propose reforms to mitigate the burdens of the temporary Treasury regulations. It is unclear the exact form any such proposed reforms would take and what the impact of such reforms would be on JBG SMITH.

We may not be able to engage in potentially desirable strategic or capital-raising transactions for the 24-month period following the Formation Transaction. In addition, if we were able to engage in such transactions, we could be liable for adverse tax consequences resulting therefrom.

To preserve the tax-free treatment of the Formation Transaction, for the two-year period following the Formation Transaction, we are prohibited, except in specific circumstances, from: (i) entering into any transaction pursuant to which all or a portion of our shares would be acquired, whether by merger or otherwise, (ii) issuing equity securities beyond certain thresholds and except in certain circumscribed manners, (iii) repurchasing common shares, (iv) ceasing to actively conduct certain of our businesses, or (v) taking or failing to take any other action that prevents the distribution of JBG SMITH shares by Vornado and certain related transactions from being tax-free.

These restrictions may limit our ability to pursue strategic transactions or engage in new business or other transactions that may maximize the value of our business.

Potential indemnification liabilities to Vornado pursuant to the Separation and Distribution Agreement (the "Separation Agreement") could have a material adverse effect on us.

The Separation Agreement with Vornado governs our ongoing relationship with Vornado. Among other things, the Separation Agreement provides for indemnification obligations designed to make us financially responsible for substantially all liabilities that may exist relating to our business activities, whether incurred prior to or after the Formation Transaction, as well as those obligations of Vornado that we assumed pursuant to the Separation Agreement. If we are required to indemnify Vornado under the circumstances set forth in this agreement, we may be subject to substantial liabilities.

There may be undisclosed liabilities of the Vornado and JBG assets contributed to us in the Formation Transaction that might expose us to potentially large, unanticipated costs.

Prior to entering into the Master Transaction Agreement ("MTA"), each of Vornado and JBG performed diligence with respect to the business and assets of the other. However, these diligence reviews were necessarily limited in nature and scope and may not have adequately uncovered all of the contingent or undisclosed liabilities that we assumed in connection with the Formation Transaction, many of which may not be covered by insurance. The MTA does not provide for indemnification for these types of liabilities by either party post-closing, and, therefore, we may not have any recourse with respect to such unexpected liabilities. Any such liabilities could cause us to experience losses, which may be significant, which could have a material adverse effect on us.

Certain of our trustees and executive officers may have actual or potential conflicts of interest because of their previous or continuing equity interest in, or positions at, Vornado or JBG, as applicable, including members of our senior management, who have an ownership interest in the JBG Legacy Funds and own carried interests in certain JBG Legacy Funds and in certain of our real estate ventures that entitles them to receive additional compensation if the fund or real estate venture achieves certain return thresholds.

Some of our trustees and executive officers are persons who are or have been employees of Vornado or were employees of JBG. Because of their current or former positions with Vornado or JBG, certain of our trustees and executive officers own Vornado common shares or other Vornado equity awards or equity interests in certain JBG Legacy Funds and related entities. In addition, one of our trustees continues to serve as chief executive officer and chairman of the Board of Trustees of Vornado. Ownership of Vornado common shares or interests in the JBG Legacy Funds, or service as a trustee or managing partner, as applicable, at either company, could create, or appear to create, potential conflicts of interest.

Certain of the JBG Legacy Funds own assets that were not contributed to us in the combination (the "JBG Excluded Assets"), which JBG Legacy Funds are owned in part by members of our senior management. In addition, although the asset management and property management fees associated with the JBG Excluded Assets were assigned to us upon completion of the Formation Transaction, the general partner and managing member interests in the JBG Legacy Funds held by former JBG executives (who became members of our management team) were not transferred to us and remain under the control of these individuals. As a result, our management's time and efforts may be diverted from the management of our assets to management of the JBG Legacy Funds, which could adversely affect the execution of our business plan and our results of operations and cash flow.

In addition, members of our senior management have an ownership interest in the JBG Legacy Funds and own carried interests in each fund and in certain of our real estate ventures that entitle them to receive additional compensation if the fund or real estate venture achieves certain return thresholds. As a result, members of our senior management could be incentivized to spend time and effort maximizing the cash flow from the assets being retained by the JBG Legacy Funds and certain real estate ventures, particularly through sales of assets, which may accelerate payments of the carried interest but would reduce the asset management and other fees that would otherwise be payable to us with respect to the JBG Excluded Assets. These actions could adversely impact our results of operations and cash flow.

Other potential conflicts of interest with the JBG Legacy Funds include transactions with these funds and competition for tenants. We have, and in the future we may, enter into transactions with the JBG Legacy Funds, such as purchasing assets from them. Any such transaction would create a conflict of interest as a result of our management team's interests on both sides of the transaction, because we manage the JBG Legacy Funds and because members of our management own interests in the general partner or other managing entities of the funds. We may compete for tenants with the JBG Legacy Funds and because we typically manage the assets of the JBG Legacy Funds, we may have a conflict of interest when competing for a tenant if the tenant is interested in assets owned by us and the JBG Legacy Funds. Any of the above described conflicts of interest could have a material adverse effect on us.

Vornado is not required to present investments to us that satisfy our investment guidelines before pursuing such opportunities on Vornado's behalf.

Our agreements with Vornado do not require Vornado to present to us investment opportunities that satisfy our investment guidelines before Vornado pursues such opportunities. While Vornado advised us at the time of the Formation Transaction that it did not intend to make acquisitions within the Washington, D.C. metropolitan area after the Formation Transaction, should it choose to do so, Vornado is free to direct investment opportunities away from us, and we may be unable to compete with Vornado in pursuing such opportunities. In addition, our declaration of trust provides that a trustee who is also a trustee, officer, employee or agent of Vornado or any of Vornado's affiliates has no duty to communicate or present any business opportunity to us.

In connection with the Formation Transaction, Vornado agreed to indemnify us for certain pre-distribution liabilities and liabilities related to Vornado assets. However, there can be no assurance that these indemnities will be sufficient to protect us against the full amount of such liabilities, or that Vornado's ability to satisfy its indemnification obligation will not be impaired in the future.

Pursuant to the Separation Agreement, Vornado agreed to indemnify us for certain liabilities. However, third parties could seek to hold us responsible for any of the liabilities that Vornado agreed to retain, and there can be no assurance that Vornado will be able to fully satisfy its indemnification obligations. Moreover, even if we ultimately succeed in recovering from Vornado any amounts for which we are held liable, such indemnification may be insufficient to fully offset the financial impact of such liabilities and/or we may be temporarily required to bear these losses while seeking recovery from Vornado.

Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and share price.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act and the Dodd-Frank Act and are required to prepare our financial statements according to the rules and regulations required by the SEC. In addition, the Exchange Act requires that we file annual, quarterly and current reports. Our failure to prepare and disclose this information in a timely manner or to otherwise comply with applicable law could subject us to penalties under federal securities laws, expose us to lawsuits and restrict our ability to access financing.

In addition, the Sarbanes-Oxley Act requires that we, among other things, establish and maintain effective internal controls and procedures for financial reporting and disclosure purposes. Internal control over financial reporting is complex and may be revised over time to adapt to changes in our business, or changes in applicable accounting rules. We cannot assure you that our internal control over financial reporting will be effective in the future or that a material weakness will not be discovered with respect to a prior period for which we had previously believed that internal controls were effective. If we are not able to maintain or document effective internal control over financial reporting, our independent registered public accounting firm will not be able to certify as to the effectiveness of our internal control over financial reporting.

Matters impacting our internal controls may cause us to be unable to report our financial information on a timely basis, or may cause our company to restate previously issued financial information, and thereby subject us to adverse regulatory consequences, including sanctions or investigations by the SEC, or violations of applicable stock exchange listing rules. There could also be a negative reaction in the financial markets due to a loss of investor confidence in our company and the reliability of our financial statements. Confidence in the reliability of our financial statements is also likely to suffer if we or our independent registered public accounting firm report a material weakness in our internal control over financial reporting. Any of the foregoing could have a material adverse effect on us.

Risks Related to Our Indebtedness and Financing

We have a substantial amount of indebtedness, which may limit our financial and operating activities and expose us to the risk of default under our debt obligations.

As of December 31, 2018, we had approximately \$2.1 billion aggregate principal amount of consolidated debt outstanding and our unconsolidated real estate ventures had approximately \$1.1 billion aggregate principal amount of debt outstanding (\$299.4 million at our share), resulting in a total of over \$2.4 billion aggregate principal amount of debt outstanding at our share. A portion of our outstanding debt is guaranteed by our operating partnership, and we may incur significant additional debt to finance future acquisition and development activities.

Payments of principal and interest on borrowings may leave us with insufficient cash resources to operate our assets or to pay the dividends currently contemplated. Our level of debt and the limitations imposed on us by our debt agreements could have significant adverse consequences, including the following:

- our cash flow may be insufficient to meet our required principal and interest payments;
- we may be unable to borrow additional funds as needed or on favorable terms, which could, among other things, adversely affect our ability to meet operational needs;
- we may be unable to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;
- we may be forced to dispose of one or more of our assets, possibly on unfavorable terms or in violation of certain covenants to which we may be subject;
- we may violate restrictive covenants in our loan documents, which would entitle the lenders to accelerate our debt obligations; and
- our default under any loan with cross-default provisions could result in a default on other indebtedness.

If any one of these events were to occur, it could have a material adverse effect on us.

Our debt agreements include restrictive covenants, requirements to maintain financial ratios and default provisions, which could limit our flexibility and our ability to make distributions and require us to repay the indebtedness prior to its maturity.

The mortgages on our assets contain customary negative covenants that, among other things, limit our ability, without the prior consent of the lender, to further mortgage the property and to reduce or change insurance coverage. We have a \$1.4 billion credit facility under which we have significant borrowing capacity. Additionally, our debt agreements contain customary covenants that, among other things, restrict our ability to incur additional indebtedness and may restrict our ability to engage in material asset sales, mergers, consolidations and acquisitions, and restrict our ability to make capital expenditures. These debt agreements, in some cases, also subject us to guarantor and liquidity covenants, and our credit facility requires, and other future debt may require, us to maintain various financial ratios. Some of our debt agreements contain cash flow sweep requirements and mandatory escrows, and our property mortgages generally require mandatory prepayments upon disposition of underlying collateral. Our ability to borrow is subject to compliance with these and other covenants, and failure to comply with our covenants could cause a default under the applicable debt instrument, and we may then be required to repay such debt with capital from other sources or give possession of a property to the lender. Under those circumstances, other sources of capital may not be available to us or may be available only on unattractive terms.

We may not be able to obtain capital to make investments.

Because the Code requires us, as a REIT, to distribute at least 90% of our taxable income, excluding net capital gains, to our shareholders, we depend primarily on external financing to fund the growth of our business. There is a separate requirement to distribute net capital gains or pay a corporate level tax in lieu thereof. Our access to debt or equity financing depends on the willingness of third parties to lend or make equity investments and on conditions in the capital markets generally. There can be no assurance that new financing will be available or available on acceptable terms.

Our future development plans are capital intensive. To complete these plans, we anticipate financing construction and development through asset sales, real estate ventures with third parties, recapitalizations of assets, and public or private equity offerings, or a combination thereof. Similarly, these plans require an even more significant amount of debt financing. If we are unable to obtain the required debt or equity capital, then we will not be able to execute our business plan, which could have a material adverse effect on us.

For information about our available sources of funds, see "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources" and the notes to the consolidated and combined financial statements included herein.

High mortgage rates and/or unavailability of mortgage debt may make it difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire or retain, our net income and the amount of cash distributions we can make.

If mortgage debt is not available at reasonable rates, or if lenders currently under contractual obligations to lend to us fail to perform on such obligations, we may not be able to finance the purchase of properties. If we place mortgages on properties, we may be

unable to refinance the properties when the loans become due, or refinance on favorable terms or at all, including as a result of increases in interest rates or a decline in the value of our portfolio or portions thereof. If principal payments due at maturity cannot be refinanced, extended or paid with proceeds from other capital transactions, such as new equity issuances, our operating cash flow may not be sufficient in all years to repay all maturing debt. This, in turn, could reduce cash available for distribution to our shareholders and may hinder our ability to raise more capital by issuing more shares or by borrowing more money. In addition, payments of principal and interest made to service our debts may leave us with insufficient cash to make distributions necessary to meet the distribution requirements imposed on REITs under the Code. As a result, we may be forced to postpone capital expenditures necessary for the maintenance of our properties, we may have to dispose of one or more properties on terms that would otherwise be unacceptable to us or we may be forced to allow the mortgage holder to foreclose on a property, any of the foregoing could have a material adverse effect on us.

Mortgage debt obligations expose us to the possibility of foreclosure, which could result in the loss of our investment in a property or group of properties subject to mortgage debt.

Incurring mortgage and other secured debt obligations increases our risk of property losses because defaults on indebtedness secured by properties may result in foreclosure actions initiated by lenders and ultimately our loss of the property collateralizing loans for which we are in default. Any foreclosure on a mortgaged property or group of properties could adversely affect the overall value of our portfolio of properties. For tax purposes, a foreclosure on any of our properties that is subject to a nonrecourse mortgage loan would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds, which could hinder our ability to meet the REIT distribution requirements imposed by the Code.

Variable rate debt is subject to interest rate risk that could increase our interest expense, increase the cost to refinance and increase the cost of issuing new debt.

As of December 31, 2018, \$1.6 billion of our outstanding consolidated debt was subject to instruments that bear interest at variable rates, and we may also borrow additional money at variable interest rates in the future. We have made arrangements that hedge against the risk of rising interest rates with respect to \$1.1 billion of our outstanding consolidated debt; but with respect to the remainder, increases in interest rates would increase our interest expense under these instruments, increase the cost of refinancing these instruments or issuing new debt, and adversely affect our cash flow and our ability to service our indebtedness and make distributions to our shareholders, which could, in turn, adversely affect the market price of our common shares. Based on our aggregate variable rate debt outstanding as of December 31, 2018, an increase of 100 basis points in interest rates would result in a hypothetical increase of approximately \$5.2 million in interest expense on an annual basis. The amount of this change includes the benefit of swaps and caps we currently have in place.

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 the future of the reference rate used in our existing hedging arrangements is uncertain, which could hinder our ability to maintain effective hedges.

The REIT provisions of the Code impose certain restrictions on our ability to utilize hedges, swaps and other types of derivatives to hedge our liabilities. Subject to these restrictions, we may enter into hedging transactions to protect ourselves from the effects of interest rate fluctuations on floating rate debt. As of December 31, 2018, our hedging transactions include entering into interest rate cap and swap agreements, which covered \$182.5 million and \$1.1 billion of our outstanding consolidated debt. 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, which could reduce the overall returns on our investments. Failure to hedge effectively against interest rate changes could have a material adverse effect on us. In addition, while such agreements would be 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. Moreover, there can be no assurance that our hedging arrangements will qualify as highly effective cash flow hedges under Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 815, Derivatives and Hedging, or that our hedging activities will have the desired beneficial impact on our results of operations. Furthermore, 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. Any of the foregoing could have a material adverse effect on us.

Our existing hedging arrangements currently use as a reference rate the London Interbank Overnight Rate (“LIBOR”), as calculated for U.S. dollar (“USD-LIBOR”), but there can be no assurance that our hedging arrangements will continue to use LIBOR as a

reference rate or that LIBOR will continue to be viable and appropriate as a reference rate. In July 2017, due to a decline in the quantity of loans used to calculate LIBOR, the United Kingdom regulator that regulates LIBOR announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021, making it clear that the continuation of LIBOR after 2021 cannot be assured. In April 2018, the New York Federal Reserve commenced publishing an alternative reference rate, the Secured Overnight Financing Rate ("SOFR"), proposed by a group of major market participants convened by the U.S. Federal Reserve with participation by SEC Staff and other regulators, the Alternative Reference Rates Committee ("ARRC"). SOFR is based on transactions in the more robust U.S. Treasury repurchase market and has been proposed as the alternative to LIBOR for use in derivatives and other financial contracts that currently rely on LIBOR as a reference rate. ARRC has proposed a paced market transition plan to SOFR from LIBOR and organizations are currently working on industry wide and company specific transition plans as it relates to derivatives and cash markets exposed to LIBOR. It is impossible to predict whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR, whether LIBOR rates will cease to be published or supported before or after 2021 or whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere. At this time, no consensus exists as to what rate or rates may become accepted alternatives to LIBOR, including for purposes of hedging arrangements such as those we currently have in place. Furthermore, the transition from LIBOR to one or more replacement rates could cause uncertainty in what reference rates apply to existing hedging and other arrangements. Additionally, there is some possibility that LIBOR continues to be published, but that the quantity of loans used to calculate LIBOR diminishes significantly enough to reduce the appropriateness of the rate as a reference rate. We can provide no assurance regarding the future of LIBOR, whether our current hedging arrangements will continue to use USD-LIBOR as a reference rate or whether any reliance on such rate will be appropriate. Confusion as to the relevant benchmark reference rate for our hedging instruments could hinder our ability to establish effective hedges.

We may acquire properties or portfolios of properties through tax deferred contribution transactions, which could result in shareholder dilution and limit our ability to sell or refinance such assets.

In the future, we may acquire properties or portfolios of properties through tax deferred contribution transactions in exchange for partnership interests in our operating partnership, which may result in shareholder dilution through the issuance of common limited partnership units ("OP Units") that may be exchanged for common shares. This acquisition structure may have the effect of, among other things, reducing the amount of tax depreciation we could deduct (as compared to a transaction where we do not inherit the contributor's tax basis but acquire tax basis equal to the value of the consideration exchanged for the property) until the OP units issued in such transactions are redeemed for cash or converted into common shares. While no such protection arrangements existed at December 31, 2018, in the future we may agree to protect the contributors' ability to defer recognition of taxable gain through restrictions on our ability to dispose of, or refinance the debt on, the acquired properties for specified periods of time. Similarly, we may be required to incur or maintain debt we would otherwise not incur or maintain so that we can allocate the debt to the contributors to maintain their tax bases. These restrictions could limit our ability to sell an asset at a time, or on terms, that would be favorable absent such restrictions.

Our decision to dispose of real estate assets would change the holding period assumption in our valuation analyses, which could result in material impairment losses and adversely affect our financial results.

We evaluate real estate assets for impairment based on the projected cash flow of the asset over our anticipated holding period. If we change our intended holding period, due to our intention to sell or otherwise dispose of an asset, then under GAAP, we must reevaluate whether that asset is impaired. Depending on the carrying value of the property at the time we change our intention and the amount that we estimate we would receive on disposal, we may record an impairment loss that would adversely affect our financial results. This loss could be material to our results of operations in the period that it is recognized, which could have a material adverse effect on us.

Risks Related to the Real Estate Industry

Real estate investments' value and income fluctuate due to various factors.

The value of real estate fluctuates depending on conditions in the general economy and the real estate business. These conditions may also adversely impact our revenues and cash flows.

The factors that affect the value of our real estate include, among other things:

- global, national, regional and local economic conditions;
- competition from other available space;
- local conditions such as an oversupply of space or a reduction in demand for real estate in the area;

- how well we manage our assets;
- the development and/or redevelopment of our assets;
- changes in market rental rates;
- the timing and costs associated with property improvements and rentals;
- whether we can pass all or portions of any increases in operating costs through to tenants;
- changes in real estate taxes and other expenses;
- whether tenants and users consider a property attractive;
- the financial condition of our tenants, including the extent of tenant bankruptcies or defaults;
- availability of financing on acceptable terms or at all;
- inflation or deflation;
- fluctuations in interest rates;
- our ability to obtain adequate insurance;
- changes in zoning laws and taxation;
- government regulation;
- consequences of any armed conflict involving, or terrorist attack against, the United States or individual acts of violence in public spaces;
- potential liability under environmental or other laws or regulations;
- natural disasters;
- general competitive factors; and
- climate changes.

The rents or sales proceeds we receive and the occupancy levels at our assets may decline as a result of adverse changes in any of these factors. If rental revenues, sales proceeds and/or occupancy levels decline, we generally would expect to have less cash available to pay indebtedness and for distribution to shareholders. In addition, some of our major expenses, including mortgage payments, real estate taxes and maintenance costs generally do not decline when the related rents decline.

It may be difficult to buy and sell real estate quickly, which may limit our flexibility.

Real estate investments are relatively difficult to buy and sell quickly. Consequently, we may have limited ability to vary our portfolio promptly in response to changes in economic or other conditions. Moreover, our ability to buy, sell, or finance real estate assets may be adversely affected during periods of uncertainty or unfavorable conditions in the credit markets as we, or potential buyers of our assets, may experience difficulty in obtaining financing.

Our property taxes could increase due to property tax rate changes or reassessment, which could have a material adverse effect on us.

Even if we qualify as a REIT for U.S. federal income tax purposes, we will be required to pay certain state and local taxes on our properties. The real property taxes on our properties may increase as property tax rates change or as our properties are assessed or reassessed by taxing authorities. Therefore, the amount of property taxes we pay in the future may increase substantially from what we have paid in the past and such increases may not be covered by tenants pursuant to our lease agreements. An increase in the property taxes we pay could have a material adverse effect on us.

We may incur significant costs to comply with environmental laws, and environmental contamination may impair our ability to lease and/or sell real estate.

Our operations and assets are subject to various federal, state and local laws and regulations concerning the protection of the environment including air and water quality, hazardous or toxic substances and health and safety. Under some environmental laws, a current or previous owner or operator of real estate may be required to investigate and clean up hazardous or toxic substances released at a property. The owner or operator may also be held liable to a governmental entity or to third parties for property damage or personal injuries and for investigation and clean-up costs incurred by those parties because of the contamination. These laws often impose liability without regard to whether the owner or operator knew of the release of the substances or caused such release. The presence of contamination or the failure to remediate contamination may (1) expose us to third-party liability (e.g., for cleanup costs, natural resource damages, bodily injury or property damage), (2) subject our properties to liens in favor of the government for damages and costs the government incurs in connection with the contamination, (3) result in restrictions on the

manner in which a property may be used or businesses may be operated, or (4) impair our ability to sell or lease real estate or to borrow using the real estate as collateral. To the extent we send contaminated materials to other locations for treatment or disposal, we may be liable for cleanup of those sites if they become contaminated.

Other laws and regulations govern indoor and outdoor air quality including those that can require the abatement or removal of asbestos-containing materials in the event of damage, demolition, renovation or remodeling, and also govern emissions of and exposure to asbestos fibers in the air. The maintenance and removal of lead paint and certain electrical equipment containing polychlorinated biphenyls (PCBs) are also regulated by federal and state laws. We are also subject to risks associated with human exposure to chemical or biological contaminants such as molds, pollens, viruses and bacteria which, above certain levels, can be alleged to be connected to allergic or other health effects and symptoms in susceptible individuals. Our predecessor companies may be subject to similar liabilities for activities of those companies in the past. We could incur fines for environmental noncompliance and be held liable for the costs of remedial action with respect to the foregoing regulated substances or related claims arising out of environmental contamination or human exposure at or from our assets.

Most of our assets have been subjected to varying degrees of environmental assessment at various times. To date, these environmental assessments have not revealed any environmental condition material to our business. However, identification of new compliance concerns or undiscovered areas of contamination, changes in the extent or known scope of contamination, human exposure to contamination or changes in cleanup or compliance requirements could result in significant costs to us.

In addition, we may become subject to costs or taxes, or increases therein, associated with natural resource or energy usage (such as a "carbon tax"). These costs or taxes could increase our operating costs and decrease the cash available to pay our obligations or distribute to equity holders.

If we default on or fail to renew at expiration the ground leases for land on which some of our assets are located or other long-term leases, our results of operations could be adversely affected.

We own leasehold interests in certain land on which some of our assets are located. If we default under the terms of any of these ground leases, we may be liable for damages and could lose our leasehold interest in the property or our option to purchase the underlying fee interest in such assets. In addition, unless we purchase the underlying fee interests in the land on which a particular property is located, we will lose our right to operate the property or we will continue to operate it at much lower profitability, which would significantly adversely affect our results of operations. In addition, if we are perceived to have breached the terms of a ground lease, the fee owner may initiate proceedings to terminate the lease. As of December 31, 2018, the remaining weighted average term of our ground leases, including unilateral as-of-right extension rights available to us, was approximately 62.8 years. Our share of annualized rent from assets subject to ground leases as of December 31, 2018 was approximately \$80.9 million, or 15.2% of total annualized rent.

Climate change may adversely affect our business.

Climate change, including rising sea levels, flooding, 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. We own a number of assets in low-lying areas close to sea level, making those assets susceptible to a rise in sea level. If sea levels were to rise, we may incur material costs to protect our low-lying assets or sustain damage, a decrease in value or total loss to those assets. Furthermore, 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. We do not currently have any assets located within a Federal Emergency Management Agency (FEMA) special flood plain in our portfolio.

In addition, changes in federal and state legislation and regulations on climate change could result in increased utility expenses and/or increased 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 four major jurisdictions where we operate are the District of Columbia, Arlington County, VA, Fairfax County, VA, and Montgomery County, MD, each of which has made formal public commitments to carbon reduction aligned with the goal to keep global warming under 2 degrees Celsius consistent with the Paris Agreement, the United Nations framework convention on climate change. To enforce this commitment, in December 2018, the Washington DC City Council passed the DC Clean Energy Omnibus bill. The bill requires that all electricity purchased in the District be renewable by 2032 and sets a building energy performance standard (BEPS) requiring certain buildings to meet certain minimum energy efficiency standards. Under BEPS, all existing buildings over 50,000 square feet will be required to reach minimum levels of energy efficiency or deliver savings by 2026, with progressively smaller buildings phasing into compliance over the following years. This regulation may require unplanned capital improvements, and increased engagement to manage occupant energy use, which is a large driver of building performance. Properties that cannot meet performance standards within our investment thresholds risk fines for non-compliance, as well as a decrease in demand and a decline in value.

Risks Related to Our Organization and Structure

Tax consequences to holders of JBG SMITH LP limited partnership units upon a sale of certain of our assets may cause the interests of our senior management to differ from your own.

Some holders of JBG SMITH LP limited partnership units, including members of our senior management, may suffer different and more adverse tax consequences than holders of our common shares upon the sale of certain of the assets owned by our operating partnership, and therefore these holders may have different objectives regarding the appropriate pricing, timing and other material terms of any sale or refinancing of certain assets, or whether to sell such assets at all.

Our declaration of trust and bylaws, the partnership agreement of our operating partnership and Maryland law contain provisions that may delay, defer or prevent a change of control transaction that might involve a premium price for our common shares or that our shareholders otherwise believe to be in their best interest.

Our declaration of trust contains ownership limits with respect to our shares.

Generally, to maintain our qualification as a REIT, no more than 50% in value of our outstanding shares of beneficial interest may be owned, directly or indirectly, by five or fewer individuals at any time during the last half of our taxable year. The Code defines "individuals" for purposes of the requirement described in the preceding sentence to include some types of entities. Our declaration of trust authorizes our Board of Trustees to take such actions as it determines are necessary or advisable to preserve our qualification as a REIT. Our declaration of trust prohibits, among other things, the actual, beneficial or constructive ownership by any person of more than 7.5% in value or number of shares, whichever is more restrictive, of the outstanding shares of any class or series. For these purposes, our declaration of trust includes a "group" as that term is used for purposes of Section 13(d)(3) of the Exchange Act in the definition of "person." Our Board of Trustees may exempt a person, prospectively or retroactively, from these ownership limits if certain conditions are satisfied.

This ownership limit and the other restrictions on ownership and transfer of our shares contained in our declaration of trust may:

- discourage a tender offer or other transactions or a change in management or of control that might involve a premium price for our common shares or that our shareholders might otherwise believe to be in their best interest; or
- result in the transfer of shares acquired in excess of the restrictions to a trust for the benefit of a charitable beneficiary and, as a result, the forfeiture by the acquirer of the benefits of owning the additional shares.

Provisions of Maryland law could inhibit changes in control, which may discourage third parties from conducting a tender offer or seeking other change of control transactions that might involve a premium price for our common shares or that our shareholders might otherwise believe to be in their best interest.

Provisions of the Maryland General Corporation Law, or "MGCL", may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under circumstances that otherwise could provide the holders of common shares with the opportunity to realize a premium over the then-prevailing market price of such shares, including:

- "business combination" provisions that, subject to limitations, prohibit business combinations between us and an "interested shareholder" (defined generally as any person who beneficially owns 10% or more of the voting power of our shares or an affiliate thereof or an affiliate or associate of ours who was the beneficial owner, directly or indirectly, of 10% or more of the voting power of our then-outstanding voting shares at any time within the two-year period immediately prior to the date in question) for five years after the most recent date on which the shareholder becomes an interested shareholder, and thereafter impose fair price and/or supermajority shareholder voting requirements on these combinations; and
- "control share" provisions that provide that a shareholder's "control shares" of our company (defined as shares that, when aggregated with other shares controlled by the shareholder, entitle the shareholder to exercise one of three increasing ranges of voting power in electing trustees) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of issued and outstanding "control shares") have no voting rights with respect to their control shares, except to the extent approved by our shareholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

As permitted by the MGCL, we have elected in our bylaws to opt out of the business combination and control share provisions of the MGCL. However, we cannot assure you that our Board of Trustees will not opt to be subject to such provisions of the MGCL in the future, including opting to be subject to such provisions retroactively.

The limited partnership agreement of our operating partnership requires the approval of the limited partners with respect to certain extraordinary transactions involving JBG SMITH, which may reduce the likelihood of such transactions being consummated, even if they are in the best interests of, and have been approved by, our shareholders.

The limited partnership agreement of JBG SMITH LP as amended and restated in connection with the Formation Transaction, provides that we may not engage in a merger, consolidation or other combination with or into another person, a sale of all or substantially all of our assets, or a reclassification, recapitalization or a change in outstanding shares (except for changes in par value, or from par value to no par value, or as a result of a subdivision or combination of our common shares), which we refer to collectively as an extraordinary transaction, unless specified criteria are met. In particular, with respect to any extraordinary transaction, if partners will receive consideration for their limited partnership units and if we seek the approval of our shareholders for the transaction (or if we would have been required to obtain shareholder approval of any such extraordinary transaction but for the fact that a tender offer shall have been accepted with respect to a sufficient number of our common shares to permit consummation of such extraordinary transaction without shareholder approval), then the limited partnership agreement prohibits us from engaging in the extraordinary transaction unless we also obtain "partnership approval." To obtain "partnership approval," we must obtain the consent of our limited partners (including us and any limited partners majority owned, directly or indirectly, by us) representing a percentage interest in JBG SMITH LP that is equal to or greater than the percentage of our outstanding common shares required (or that would have been required in the absence of a tender offer) to approve the extraordinary transaction, provided that we and any limited partners majority owned, directly or indirectly, by us will be deemed to have provided consent for our partnership units solely in proportion to the percentage of our common shares approving the extraordinary transaction (or, if there is no shareholder vote with respect to such extraordinary transaction because a tender offer shall have been accepted with respect to a sufficient number of our common shares to permit consummation of the extraordinary transaction without shareholder approval, the percentage of our common shares with respect to which such tender offer shall have been accepted).

The limited partners of JBG SMITH LP may have interests in an extraordinary transaction that differ from those of common shareholders, and there can be no assurance that, if we are required to seek "partnership approval" for such a transaction, we will be able to obtain it. As a result, if a sufficient number of limited partners oppose such an extraordinary transaction, the limited partnership agreement may prohibit us from consummating it, even if it is in the best interests of, and has been approved by, our shareholders.

Until the 2020 annual meeting of shareholders, we will have a classified Board of Trustees, and that may reduce the likelihood of certain takeover transactions.

Our declaration of trust divides our Board of Trustees into three classes. The initial term of the first class expired at our first annual meeting of shareholders held following the Formation Transaction, and the initial terms of the second and third classes will expire at the second and third annual meetings of shareholders. At the 2018 annual shareholders meeting, shareholders elected successors to trustees of the first class for a two-year term and, at the 2019 annual shareholders meeting, shareholders will elect successors to trustees of the second class for a one-year term. Commencing with the 2020 annual meeting of shareholders, each trustee shall be elected annually for a term of one year and shall hold office until the next succeeding annual meeting and until a successor is duly elected and qualifies. There is no cumulative voting in the election of trustees. Until the 2020 annual meeting of the shareholders, our Board is classified, which may reduce the possibility of a tender offer or an attempt to change control, even though a tender offer or change in control might be in the best interest of our shareholders.

We may issue additional shares in a manner that could adversely affect the likelihood of takeover transactions.

Our declaration of trust authorizes the Board of Trustees, without shareholder approval, to:

- cause us to issue additional authorized but unissued common or preferred shares;
- classify or reclassify, in one or more classes or series, any unissued common or preferred shares;
- set the preferences, rights and other terms of any classified or reclassified shares that we issue; and
- amend our declaration of trust to increase the number of shares of beneficial interest that we may issue.

The Board of Trustees could establish a class or series of common or preferred shares whose terms could delay, deter or prevent a change in control or other transaction that might involve a premium price or otherwise be in the best interest of our shareholders, although the Board of Trustees does not now intend to establish a class or series of common or preferred shares of this kind. Our declaration of trust and bylaws contain other provisions that may delay, deter or prevent a change in control or other transaction that might involve a premium price or otherwise be in the best interest of our shareholders.

Substantially all our assets are owned by subsidiaries. We depend on dividends and distributions from these subsidiaries. The creditors of these subsidiaries are entitled to amounts payable to them by the subsidiaries before the subsidiaries may pay any dividends or other distributions to us.

Substantially all of our assets are held through JBG SMITH LP which holds substantially all of its assets through wholly owned subsidiaries. JBG SMITH LP's cash flow is dependent on cash distributions to it by its subsidiaries, and in turn, substantially all of our cash flow is dependent on cash distributions to us by JBG SMITH LP. The creditors of each of our subsidiaries are entitled to payment of that subsidiary's obligations to them when due and payable before distributions may be made by that subsidiary to its equity holders. In addition, the operating agreements governing some of our subsidiaries which are parties to real estate joint ventures may have restrictions on distributions which could limit the ability of those subsidiaries to make distributions to JBG SMITH LP. Thus, JBG SMITH LP's ability to make distributions to holders of its units, including us, depends on its subsidiaries' ability first to satisfy their obligations to their creditors, and then to make distributions to JBG SMITH LP. Likewise, our ability to pay dividends to our shareholders depends on JBG SMITH LP's ability first to satisfy its obligations, if any, to its creditors and make distributions payable to holders of preferred units (if any), and then to make distributions to us.

In addition, our participation in any distribution of the assets of any of our subsidiaries upon the liquidation, reorganization or insolvency of the subsidiary, occurs only after the claims of the creditors, including trade creditors, and preferred security holders, if any, of the applicable direct or indirect subsidiaries are satisfied.

Our rights and the rights of our shareholders to take action against our Trustees and officers are limited.

As permitted by Maryland law, under our declaration of trust, trustees and officers shall not be liable to us and 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 requires us to indemnify our trustees and officers for actions taken by them in those and certain other capacities to the maximum extent permitted by Maryland law. The Maryland REIT law permits a REIT to indemnify and advance expenses to its trustees, officers, employees and agents to the same extent as permitted by the MGCL for directors and officers of a Maryland corporation. Generally, Maryland law permits a Maryland corporation to indemnify its present and former directors and officers except in instances where the person seeking indemnification acted in bad faith or with active and deliberate dishonesty, actually received an improper personal benefit in money, property or services or, in the case of a criminal proceeding, had reasonable cause to believe that his or her actions were unlawful. Under Maryland law, a Maryland corporation also may not indemnify a director or officer in a suit by or in the right of the corporation in which the director or officer was adjudged liable to the corporation or for a judgment of liability on the basis that a personal benefit was improperly received. A court may order indemnification if it determines that the director or officer is fairly and reasonably entitled to indemnification, even though the director or officer did not meet the prescribed standard of conduct; however, indemnification for an adverse judgment in a suit by us or in our right, or for a judgment of liability on the basis that personal benefit was improperly received, is limited to expenses. As a result, we and our shareholders may have more limited rights against our trustees and officers than might otherwise exist. Accordingly, if actions taken in good faith by any of our trustees or officers impede the performance of our company, your ability to recover damages from such trustee or officer will be limited.

Risks Related to Our Status as a REIT

We may fail to qualify or remain qualified as a REIT and may be required to pay income taxes at corporate rates.

Although we believe that we are organized and intend to operate to qualify as a REIT for federal income tax purposes, we may fail to remain so qualified. Qualification and taxation as a REIT are governed by highly technical and complex provisions of the Code for which there are only limited judicial or administrative interpretations and depend on various facts and circumstances that are not entirely within our control. In addition, legislation, new regulations, administrative interpretations or court decisions may significantly change the relevant tax laws and/or the federal income tax consequences of qualifying as a REIT. If, with respect to any taxable year, we fail to maintain our qualification as a REIT and do not qualify under statutory relief provisions, we could not deduct distributions to shareholders in computing our taxable income and would have to pay federal income tax on our taxable income at regular corporate rates. If we had to pay federal income tax, the amount of money available to distribute to shareholders and pay our indebtedness would be reduced for the year or years involved, and we would not be required to make distributions to shareholders in that taxable year and in future years until we were able to qualify as a REIT. In addition, we would also be

disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost, unless we were entitled to relief under the relevant statutory provisions.

REIT distribution requirements could adversely affect our liquidity and our ability to execute our business plan.

For us to qualify to be taxed as a REIT, and assuming that certain other requirements are also satisfied, we generally must distribute at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gains, to our shareholders each year, so that U.S. federal corporate income tax does not apply to earnings that we distribute. To the extent that we satisfy this distribution requirement and qualify for taxation as a REIT, but distribute less than 100% of our REIT taxable income, determined without regard to the dividends paid deduction and including any net capital gains, we will be subject to U.S. federal corporate income tax on our undistributed net taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we distribute to our shareholders in a calendar year is less than a minimum amount specified under U.S. federal income tax laws. We intend to distribute 100% of our REIT taxable income to our shareholders out of assets legally available therefor.

From time to time, we may generate taxable income greater than our cash flow as a result of differences in timing between the recognition of taxable income and the actual receipt of cash or the effect of nondeductible capital expenditures, the creation of reserves, or required debt or amortization payments. Further, under amendments to the Code made by federal tax reform legislation, which was signed into law on December 22, 2017 and which we refer to as the 2017 Tax Act, income must be accrued for U.S. federal income tax purposes no later than when such income is taken into account as revenue in our financial statements, subject to certain exceptions, which could also create mismatches between REIT taxable income and the receipt of cash attributable to such income. If we do not have other funds available in these situations, we could be required to borrow funds on unfavorable terms, sell assets at disadvantageous prices, distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt, or make taxable distributions of our shares or debt securities to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the REIT distribution requirement and avoid corporate income tax and the 4% excise tax in a particular year. These alternatives could increase our costs or reduce our equity. Further, amounts distributed will not be available to fund investment activities. Thus, compliance with the REIT requirements may hinder our ability to grow, which could adversely affect the value of our shares. Any restrictions on our ability to incur additional indebtedness or make certain distributions could preclude us from meeting the 90% distribution requirement. Decreases in funds from operations due to unfinanced expenditures for acquisitions of assets or increases in the number of shares outstanding without commensurate increases in funds from operations would each adversely affect our ability to maintain our current level of distributions to our shareholders. Consequently, there can be no assurance that we will be able to make distributions at the anticipated distribution rate or any other rate.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends, which could depress the market price of our common shares if perceived as a less attractive investment.

The maximum tax rate applicable to income from "qualified dividends" payable by non-REIT corporations to U.S. shareholders that are individuals, trusts or estates is 20%, and a 3.8% Medicare tax may also apply. Dividends payable by REITs, however, generally are not eligible for this reduced rate. Commencing with taxable years beginning on or after January 1, 2018 and continuing through 2025, the 2017 Tax Act temporarily reduces the effective tax rate on ordinary REIT dividends (i.e., dividends other than capital gain dividends and dividends attributable to certain qualified dividend income received by us) for U.S. holders of our common shares that are individuals, trusts or estates by permitting such holders to claim a deduction in determining their taxable income equal to 20% of any such dividends they receive (but limited to the excess of a holder's taxable income over net capital gain). Taking into account the 2017 Tax Act's reduction in the maximum individual federal income tax rate from 39.6% to 37%, this results in a maximum effective rate of federal income tax (exclusive of the 3.8% Medicare tax) on ordinary REIT dividends of 29.6% through 2025, as compared to the 20% maximum federal income tax rate applicable to qualified dividend income received from a non-REIT corporation (although the maximum effective rate applicable to such dividends, after taking into account the 21% federal income tax applicable to non-REIT corporations, is 36.8%). Although these rules do not adversely affect the taxation of REITs or dividends payable by REITs, investors who are individuals, trusts or estates may perceive investments in REITs to be relatively less attractive than investments in the shares of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including the per share trading price of our common shares.

The tax imposed on REITs engaging in "prohibited transactions" may limit our ability to engage in transactions that would be treated as sales for U.S. federal income tax purposes.

A REIT's net income from prohibited transactions is subject to a 100% penalty tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. Although we and our subsidiary REITs believe that we have held, and intend to continue to hold, our properties for

investment and do not intend to hold any properties that could be characterized as held for sale to customers in the ordinary course of our business unless a sale or disposition qualifies under a statutory safe harbor applicable to REITs, such characterization is a factual determination and no guarantee can be given that the IRS would agree with our characterization of our properties or that we will always be able to make use of the available safe harbor. In the case of some of our properties held through partnerships with third parties, our ability to dispose of such properties in a manner that satisfies the statutory safe harbor depends in part on the action of third parties over which we have no control or only limited influence.

If our operating partnership failed to qualify as a partnership for U.S. federal income tax purposes, we would cease to qualify as a REIT and suffer other adverse consequences.

We believe that our operating partnership will be treated as a partnership for U.S. federal income tax purposes. As a partnership, our operating partnership will not be subject to U.S. federal income tax on its income. Instead, each of its partners, including us, will be allocated, and may be required to pay tax with respect to, its share of our operating partnership's income. We cannot assure you, however, that the IRS will not challenge the status of our operating partnership or that a court would not sustain such a challenge. If the IRS were successful in treating our operating partnership as an entity taxable as a corporation for U.S. federal income tax purposes, we would fail to meet the gross income tests and certain of the asset tests applicable to REITs and, accordingly, we would cease to qualify as a REIT. Also, the failure of our operating partnership or any subsidiary partnership to qualify as a partnership could cause the entity to become subject to U.S. federal, state or local corporate income tax, which would reduce significantly the amount of cash available for debt service and for distribution to us.

Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.

The REIT provisions of the Code may limit our ability to hedge our assets and operations. Under these provisions, income that we generate from transactions intended to hedge our interest rate and certain types of foreign currency risk generally will be excluded from gross income for purposes of the 75% and 95% gross income tests applicable to REITs if the instrument hedges interest rate or foreign currency risk on liabilities used to carry or acquire real estate assets or certain other types of foreign currency risk, and such instrument is properly identified. Income from certain hedges entered into in connection with the termination of a hedging transaction described in the preceding sentence, where the property or indebtedness that was the subject of the prior hedging transaction was extinguished or disposed of, will also be excluded from gross income for purposes of the 75% and 95% gross income tests. Income from hedging transactions that do not meet these requirements will generally constitute non-qualifying income for purposes of both the 75% and 95% gross income tests. As a result of these rules, we may have to limit our use of hedging techniques that might otherwise be advantageous or implement those hedges through a TRS. This could increase the cost of our hedging activities, because our TRS would be subject to tax on gains, or could expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in our TRS will generally not provide any tax benefit, except to the extent they can be carried forward and used to offset future taxable income in the TRS.

Our subsidiary REITs may be subject to a corporate tax on recognized gain if some properties are sold within five years of their acquisition.

To the extent that our operating partnership contributes appreciated properties to a subsidiary REIT that were acquired in the Formation Transaction from tax partnerships in which investors that are C corporations under the Code hold interests, the subsidiary REIT will be subject to a corporate level tax on the portion of the net built-in gain attributable to the C corporation investors' interests that would have otherwise been taxable to such investors if such gain is recognized by the subsidiary REIT as the result of a sale of any such property within a five-year period following the contribution of the properties to the subsidiary REIT. This corporate level tax will be borne proportionately by all of the holders of OP Units, including us. In the alternative, we may cause our operating partnership to elect to cause the recognition of such net built-in gain at the time of the contribution of the properties to the subsidiary REIT (a so-called deemed sale election). In this case, the taxable recognized gain would be allocated to the C corporation investors by the operating partnership (expected to be with respect to the operating partnership's 2017 tax year), which would increase the operating partnership's basis in the stock of the subsidiary REIT (as to the C corporation investors only) by the amount of net built-in gain allocated to such investors. We will decide, as general partner of the operating partnership, whether or not to cause the operating partnership to make such a deemed sale election.

Our ownership of TRSs will be limited, and we will be required to pay a 100% penalty tax on certain income or deductions if our transactions with our TRSs are not conducted on arm's length terms.

We own an interest in certain TRSs and may establish additional TRSs in the future. A TRS is a corporation other than a REIT in which a REIT directly or indirectly holds stock, and that has made a joint election with such REIT to be treated as a TRS. If a TRS owns more than 35% percent of the total voting power or value of the outstanding securities of another corporation, such other corporation will also be treated as a TRS. Other than some activities relating to lodging and health care facilities, a TRS may

generally engage in any business, including the provision of customary or non-customary services to tenants of its parent REIT. A TRS is subject to U.S. federal, state and local income tax as a regular C corporation, and its after-tax net income is available for distribution to the parent REIT but is not required to be distributed. As a result of the enactment of the 2017 Tax Act, effective for taxable years beginning on or after January 1, 2018 our domestic TRSs are subject to U.S. federal income tax on their taxable income at a maximum rate of 21% (as well as applicable state and local income tax), but net operating loss, or NOL, carryforwards of TRS losses arising in taxable years beginning after December 31, 2018 may be deducted only to the extent of 80% of TRS taxable income in the carryforward year (computed without regard to the NOL deduction). In contrast to prior law, which permitted unused NOL carryforwards to be carried back two years and forward 20 years, the 2017 Tax Act provides that losses arising in taxable years ending after December 31, 2018 can no longer be carried back but can be carried forward indefinitely. In addition, a 100% excise tax will be imposed on certain transactions between a TRS and its parent REIT that are not conducted on an arm's length basis.

A REIT's ownership of securities of a TRS is not subject to the 5% or 10% asset tests applicable to REITs. Not more than 20% of our total assets may be represented by securities (including securities of one or more TRSs), other than those securities includable in the 75% asset test. We anticipate that the aggregate value of the stock and securities of our TRSs and other nonqualifying assets will be less than 20% of the value of our total assets, and we will monitor the value of these investments to ensure compliance with applicable ownership limitations. In addition, we intend to structure our transactions with our TRSs to ensure that they are entered on arm's length terms to avoid incurring the 100% excise tax described above. There can be no assurance, however, that we will be able to comply with the TRS asset limitation or to avoid application of the 100% excise tax discussed above.

Our ability to provide certain services to our tenants may be limited by the REIT provisions of the Code, or we may have to provide such services through a TRS.

As a REIT, we generally cannot provide services to our tenants other than those that are customarily provided by landlords, and we cannot derive income from a third party that provides such services. If we forego providing such services to our tenants, we may be at a disadvantage to competitors who are not subject to the same restrictions. However, we can provide such non-customary services to tenants and share in the revenue from such services if we do so through a TRS, though income earned through the TRS will be subject to corporate income taxes.

We face possible adverse changes in tax laws, which may result in an increase in our tax liability and adverse consequences to our shareholders.

At any time, the U.S. federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. We cannot predict when or if any new U.S. federal income tax law, regulation, or administrative interpretation, or any amendment to any existing U.S. federal income tax law, regulation or administrative interpretation will be adopted, promulgated or become effective and any such law, regulation, or interpretation may take effect retroactively. Any such change in, or any new, U.S. federal income tax law, regulation or administrative interpretation, could have a material adverse effect on us.

In particular, the 2017 Tax Act, which generally took effect for taxable years beginning on or after January 1, 2018 (subject to certain exceptions), made many significant changes to the U.S. federal income tax laws that will profoundly impact the taxation of individuals, corporations (both regular C corporations as well as corporations that have elected to be taxed as REITs), and the taxation of taxpayers with overseas assets and operations. A number of changes that affect noncorporate taxpayers will expire at the end of 2025 unless Congress acts to extend them. These changes will impact us and our shareholders in various ways, some of which are adverse or potentially adverse compared to prior law. To date, the IRS has issued only some guidance with respect to certain of the new provisions, and there are numerous interpretive issues that will require guidance. Technical corrections legislation is still needed to clarify certain aspects of the new law and give proper effect to Congressional intent. There can be no assurance, however, that technical clarifications or changes needed to prevent unintended or unforeseen tax consequences will be enacted by Congress in the near future.

Additionally, the rules of Section 355 of the Code and the Treasury regulations promulgated thereunder, which apply to determine the taxability of the Formation Transaction, have been the subject of change and may continue to be the subject of change, possibly with retroactive application, which could have a negative effect on us and our shareholders. If such changes occur, we may be required to pay additional taxes on our assets or income. These increased tax costs could have a material adverse effect on us.

Other legislative proposals could be enacted in the future that could affect REITs and their shareholders. Prospective investors are urged to consult their tax advisors regarding the effect of the 2017 Tax Act and any other potential tax law changes on an investment in our common shares.

Risks Related to Our Common Shares

We cannot guarantee the timing, amount, or payment of dividends on our common shares.

Although we expect to pay regular cash dividends, the timing, declaration, amount and payment of future dividends to shareholders will fall within the discretion of our Board of Trustees. Our Board of Trustees' decisions regarding the payment of dividends will depend on many factors, such as our financial condition, earnings, capital requirements, debt service obligations, limitations under our financing arrangements, industry practice, legal requirements, regulatory constraints, and other factors that it deems relevant. Our ability to pay dividends will depend on our ongoing ability to generate cash from operations and access the capital markets. We cannot guarantee that we will pay a dividend in the future.

Future offerings of debt or equity securities, which would be senior to our common shares upon liquidation, and/or preferred equity securities, which may be senior to our common shares for purposes of dividend distributions or upon liquidation, may adversely affect the per share trading price of our common shares.

In the future, we may attempt to increase our capital resources by offering debt or equity securities (or causing our operating partnership to issue debt securities), including medium-term notes, senior or subordinated notes and classes or series of preferred shares. Upon liquidation, holders of our debt securities and preferred shares and lenders with respect to other borrowings will be entitled to receive our available assets prior to distribution to the holders of our common shares. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common shares and may result in dilution to owners of our common shares. Holders of our common shares are not entitled to preemptive rights or other protections against dilution. Our preferred shares, if issued, could have a preference on liquidating distributions or a preference on dividend payments that could limit our ability pay dividends to the holders of our common shares. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings.

Your percentage of ownership in our company may be diluted in the future.

Your percentage of ownership in us may be diluted because of equity issuances for acquisitions, capital market transactions or otherwise. We also have granted and anticipate continuing to grant compensatory equity awards to our trustees, officers, employees, advisors and consultants who provide services to us. Such awards have a dilutive effect on our earnings per share, which could adversely affect the market price of our common shares.

In addition, our declaration of trust authorizes us to issue, without the approval of our shareholders, one or more classes or series of preferred shares having such designation, voting powers, preferences, rights and other terms, including preferences over our common shares with respect to dividends and distributions, as our Board of Trustees generally may determine. The terms of one or more classes or series of preferred shares could dilute the voting power or reduce the value of our common shares. For example, we could grant the holders of preferred shares the right to elect some number of our trustees in all events or on the occurrence of specified events, or the right to veto specified transactions. Similarly, the repurchase or redemption rights or liquidation preferences we could assign to holders of preferred shares could affect the residual value of our common shares.

From time to time we may seek to make one or more material acquisitions. The announcement of such a material acquisition may result in a rapid and significant decline in the price of our common shares.

We are continuously looking at material transactions that we believe will maximize shareholder value. However, an announcement by us of one or more significant acquisitions could result in a quick and significant decline in the price of our common shares.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements contained herein constitute forward-looking statements within the meaning of the federal securities laws. Forward-looking statements are not guarantees of future performance. They represent our intentions, plans, expectations and beliefs and are subject to numerous assumptions, risks and uncertainties. Our future results, financial condition and business may differ materially from those expressed in these forward-looking statements. You can find many of these statements by looking for words such as "approximates," "believes," "expects," "anticipates," "estimates," "intends," "plans," "would," "may" or other similar expressions in this Annual Report on Form 10-K.

In particular, information included under "Business," "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains forward-looking statements. Many of the factors that will determine the outcome of these and our other forward-looking statements are beyond our ability to control or predict. For a discussion of factors that

could materially affect the outcome of our forward-looking statements, see "Risk Factors" in this Annual Report on Form 10-K.

You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K or the date of any document incorporated by reference. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances occurring after the date of this Annual Report on Form 10-K.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved comments from the staff of the SEC as of the date of this Annual Report on Form 10-K.

ITEM 2. PROPERTIES

Note on presentation of "at share" information. We present certain financial information and metrics "at JBG SMITH Share," which refers to our ownership percentage of consolidated and unconsolidated assets in real estate ventures. Financial information "at JBG SMITH Share" is calculated on an entity-by-entity basis. "At JBG SMITH Share" information, which we also refer to as being "at share," "our pro rata share" or "our share," is not, and is not intended to be, a presentation in accordance with GAAP. Because as of December 31, 2018, approximately 9.9% of our assets, as measured by total square feet, were held through real estate ventures, we believe this form of presentation, which includes our economic interests in the unconsolidated real estate ventures, provides investors important information regarding a significant component of our portfolio, its composition, performance and capitalization. We classify our portfolio as "operating," "near-term development" or "future development." "Near-term development" refers to assets that have substantially completed the entitlement process and on which we intend to commence construction within 18 months following December 31, 2018, subject to market conditions. We had no near-term development assets as of December 31, 2018. "Future development" refers to assets that are development opportunities on which we do not intend to commence construction within 18 months of December 31, 2018 where we (i) own land or control the land through a ground lease or (ii) are under a long-term conditional contract to purchase or enter into a leasehold interest with respect to land.

The tables below provide information about each of our commercial, multifamily, near-term development and future development portfolios as of December 31, 2018. Many of our future development parcels are adjacent to or an integrated component of operating commercial or multifamily assets in our portfolio. A significant number of our assets included in the tables below are held through real estate ventures with third parties or are subject to ground leases. In addition to other information, the tables below indicate our percentage ownership, whether the assets are consolidated or unconsolidated and whether the asset is subject to a ground lease.

Commercial Assets

Commercial Assets	% Ownership	C/U ⁽¹⁾	Same Store ⁽²⁾ : YTD 2017-2018	Total Square Feet	% Leased	Office % Occupied	Retail % Occupied
D.C.							
Universal Buildings	100.0%	C	Y	659,965	98.2%	98.0%	99.6%
2101 L Street	100.0%	C	Y	378,660	98.4%	99.0%	92.6%
1730 M Street ⁽³⁾	100.0%	C	Y	204,736	88.9%	87.0%	100.0%
1600 K Street	100.0%	C	N	82,011	98.6%	98.3%	100.0%
1700 M Street ⁽⁴⁾	100.0%	C	N	34,000	—	—	—
L'Enfant Plaza Office-East ⁽³⁾	49.0%	U	N	397,057	90.8%	90.8%	—
L'Enfant Plaza Office-North	49.0%	U	N	299,476	95.1%	84.2%	85.9%
L'Enfant Plaza Retail ⁽⁴⁾	49.0%	U	N	119,361	82.6%	100.0%	79.8%
The Foundry	9.9%	U	N	223,359	83.2%	76.4%	100.0%
1101 17th Street	55.0%	U	Y	210,730	82.7%	82.7%	82.7%
VA							
Courthouse Plaza 1 and 2 ⁽³⁾	100.0%	C	Y	633,256	85.1%	83.6%	100.0%
2121 Crystal Drive	100.0%	C	Y	505,754	95.3%	95.3%	—
2345 Crystal Drive	100.0%	C	Y	502,526	77.7%	77.5%	100.0%
2231 Crystal Drive	100.0%	C	Y	467,040	87.3%	83.9%	100.0%
1550 Crystal Drive ⁽⁵⁾	100.0%	C	Y	451,037	96.0%	81.4%	—

Commercial Assets	% Ownership	C/U ⁽¹⁾	Same Store ⁽²⁾ : YTD 2017-2018	Total Square Feet	% Leased	Office % Occupied	Retail % Occupied
RTC-West ⁽⁵⁾	100.0%	C	N	435,998	88.8%	88.8%	—
RTC-West Retail	100.0%	C	N	40,025	91.9%	—	91.9%
2011 Crystal Drive	100.0%	C	Y	440,046	90.9%	82.7%	49.7%
2451 Crystal Drive	100.0%	C	Y	398,329	72.9%	72.1%	100.0%
Commerce Executive ⁽⁵⁾⁽⁶⁾	100.0%	C	Y	388,562	89.4%	84.3%	95.2%
1235 S. Clark Street	100.0%	C	Y	384,032	85.3%	83.2%	100.0%
241 18th Street S.	100.0%	C	Y	357,685	79.0%	72.4%	91.5%
251 18th Street S.	100.0%	C	Y	342,155	99.4%	100.0%	96.2%
1215 S. Clark Street	100.0%	C	Y	336,159	100.0%	100.0%	100.0%
201 12th Street S.	100.0%	C	Y	329,903	90.5%	87.8%	100.0%
800 North Glebe Road	100.0%	C	N	303,644	100.0%	100.0%	100.0%
2200 Crystal Drive	100.0%	C	Y	282,920	70.6%	44.8%	—
1901 South Bell Street	100.0%	C	Y	277,003	100.0%	100.0%	100.0%
1225 S. Clark Street	100.0%	C	Y	276,952	92.4%	47.1%	100.0%
Crystal City Marriott (345 Rooms)	100.0%	C	Y	266,000	—	—	—
2100 Crystal Drive	100.0%	C	Y	249,281	98.8%	98.8%	—
200 12th Street S.	100.0%	C	Y	202,736	86.7%	86.7%	—
2001 Jefferson Davis Highway	100.0%	C	Y	159,838	67.3%	64.0%	—
1800 South Bell Street ⁽⁵⁾	100.0%	C	N	69,621	100.0%	100.0%	100.0%
Crystal City Shops at 2100	100.0%	C	Y	59,574	91.2%	—	91.2%
Crystal Drive Retail	100.0%	C	Y	56,965	97.3%	—	97.3%
Vienna Retail*	100.0%	C	Y	8,584	100.0%	—	100.0%
Stonebridge at Potomac Town Center*	10.0%	U	N	503,683	94.4%	—	93.9%
Pickett Industrial Park	10.0%	U	N	246,145	100.0%	100.0%	—
Rosslyn Gateway-North	18.0%	U	N	143,676	80.8%	79.3%	96.0%
Rosslyn Gateway-South	18.0%	U	N	102,061	84.9%	87.5%	40.4%
MD							
7200 Wisconsin Avenue	100.0%	C	N	267,602	72.6%	70.7%	80.8%
One Democracy Plaza* ⁽³⁾	100.0%	C	Y	213,131	96.8%	94.8%	100.0%
4749 Bethesda Avenue Retail	100.0%	C	N	7,999	47.9%	—	47.9%
11333 Woodglen Drive	18.0%	U	N	62,650	97.6%	97.2%	100.0%
Total / Weighted Average				12,381,927	89.6%	85.3%	93.4%
Recently Delivered							
VA							
CEB Tower at Central Place ⁽³⁾	100.0%	C	N	552,540	93.0%	92.6%	100.0%
Operating - Total / Weighted Average				12,934,467	89.8%	85.7%	93.5%

Commercial Assets	% Ownership	C/U ⁽¹⁾	Same Store ⁽²⁾ : YTD 2017-2018	Total Square Feet	% Leased	Office % Occupied	Retail % Occupied
Under Construction							
D.C.							
1900 N Street ⁽³⁾⁽⁷⁾	55.0%	U		271,433	65.2%		
L'Enfant Plaza Office-Southeast	49.0%	U		215,185	74.3%		
VA							
1770 Crystal Drive ⁽⁸⁾	100.0%	C		271,572	2.7%		
Central District Retail	100.0%	C		108,825	45.0%		
MD							
4747 Bethesda Avenue ⁽⁹⁾	100.0%	C		291,414	77.7%		
Under Construction - Total / Weighted Average				1,158,429	53.5%		
Total / Weighted Average				14,092,896	86.7%		

Totals at JBG SMITH Share							
In service assets				10,741,949	89.4%	85.1%	94.4%
Recently delivered assets				552,540	93.0%	92.6%	100.0%
Operating assets				11,294,489	89.6%	85.5%	94.6%
Under construction assets				926,530	49.5%	—	—

Note: At 100% share, unless otherwise noted. Excludes our 10% subordinated interests in three commercial buildings held through a real estate venture in which we have no economic interest.

* Not Metro-served.

⁽¹⁾ "C" denotes a consolidated interest. "U" denotes an unconsolidated interest.

⁽²⁾ "Y" denotes an asset as same store and "N" denotes an asset as non-same store. Same store refers to assets that were in service for the entirety of both periods being compared, except for assets for which significant redevelopment, renovation or repositioning occurred during either of the periods being compared. No JBG Assets are considered same store.

⁽³⁾ Asset is subject to a ground lease.

⁽⁴⁾ In December 2018, we leased (as landlord) the unimproved land at 1700 M Street for a 99-year term, with no extension options. 1700 M Street is a 34,000 square foot development site located in Washington, D.C.

⁽⁵⁾ The following assets contain space that is held for development or not otherwise available for lease. This out-of-service square footage is excluded from area, leased, and occupancy metrics in the above table.

Commercial Asset	In-Service	Not Available for Lease
1550 Crystal Drive	451,037	43,655
RTC - West	435,998	17,988
Commerce Executive	388,562	14,085
1800 South Bell Street	69,621	150,321

⁽⁶⁾ In February 2019, we sold Commerce Executive for \$115.0 million.

⁽⁷⁾ Ownership percentage reflects expected dilution of JBG SMITH as contributions are funded during the construction of the asset. As of December 31, 2018, JBG SMITH's ownership interest was 68.5%.

⁽⁸⁾ Amazon is expected to lease 258,299 SF at 1770 Crystal Drive. With this expected lease with Amazon, the asset would be 97.8% pre-leased, and the pre-leased status of our total under construction portfolio would be 75.8% (77.4% at our share).

⁽⁹⁾ Includes JBG SMITH's lease for approximately 84,400 square feet.

Multifamily Assets

Multifamily Assets	% Ownership	C/U ⁽¹⁾	Same Store ⁽²⁾ : YTD 2017-2018	Number of Units	Total Square Feet	% Leased	Multifamily % Occupied	Retail % Occupied
D.C.								
Fort Totten Square	100.0%	C	N	345	384,316	98.6%	95.9%	100.0%
WestEnd25	100.0%	C	Y	283	273,264	96.5%	95.8%	—
North End Retail	100.0%	C	N	—	27,355	100.0%	N/A	100.0%
The Gale Eckington	5.0%	U	N	603	466,716	91.9%	90.2%	100.0%
Atlantic Plumbing	64.0%	U	N	310	245,527	96.0%	93.9%	100.0%
VA								
RiverHouse Apartments	100.0%	C	Y	1,670	1,322,016	95.6%	94.1%	100.0%
The Bartlett	100.0%	C	N	699	619,372	95.7%	93.6%	100.0%
220 20th Street	100.0%	C	Y	265	271,476	97.4%	95.8%	100.0%
2221 South Clark Street	100.0%	C	Y	216	164,743	100.0%	100.0%	—
Fairway Apartments*	10.0%	U	N	346	370,850	95.0%	95.1%	—
MD								
Falkland Chase-South & West	100.0%	C	N	268	222,949	98.0%	96.6%	—
Falkland Chase-North	100.0%	C	N	170	112,259	97.1%	95.3%	—
Galvan	1.8%	U	N	356	390,641	95.9%	94.9%	96.8%
The Alaire ⁽⁴⁾	18.0%	U	N	279	266,497	94.7%	92.8%	100.0%
The Terano ⁽³⁾⁽⁴⁾	1.8%	U	N	214	195,864	92.4%	91.1%	76.2%
Total / Weighted Average				6,024	5,333,845	95.8%	94.2%	98.3%
Recently Delivered								
D.C.								
1221 Van Street	100.0%	C	N	291	225,462	83.1%	80.4%	79.8%
Operating - Total / Weighted Average				6,315	5,559,307	95.3%	93.6%	97.2%
Under Construction								
D.C.								
West Half	100.0%	C		465	388,174			
965 Florida Avenue ⁽⁵⁾	96.1%	C		433	336,092			
Atlantic Plumbing C	100.0%	C		256	225,531			
MD								
7900 Wisconsin Avenue	50.0%	U		322	359,025			
Under Construction - Total				1,476	1,308,822			
Total				7,791	6,868,129			
Totals at JBG SMITH Share								
In service assets				4,240	3,673,835	96.5%	94.9%	100.0%
Recently delivered assets				291	225,462	83.1%	80.4%	79.8%
Operating assets				4,531	3,899,297	95.7%	93.9%	98.1%
Under construction assets				1,298	1,116,337	—	—	—

Note: At 100% share.

* Not Metro-served.

⁽¹⁾ "C" denotes a consolidated interest. "U" denotes an unconsolidated interest.

⁽²⁾ "Y" denotes an asset as same store and "N" denotes an asset as non-same store. Same store refers to assets that were in service for the entirety of both periods being compared, except for assets for which significant redevelopment, renovation or repositioning occurred during either of the periods being compared. No JBG Assets are considered same store.

⁽³⁾ The following asset contains space that is held for development or not otherwise available for lease. This out-of-service square footage is excluded from area, leased, and occupancy metrics in the above table.

Multifamily Asset	In-Service	Not Available for Lease
The Terano	195,864	3,904

(4) Asset is subject to a ground lease.

(5) Ownership percentage reflects expected dilution of JBG SMITH's real estate venture partner as contributions are funded during the construction of the asset. As of December 31, 2018, JBG SMITH's ownership interest was 88.1%.

Near-Term Developments

As of December 31, 2018, we had no near-term development assets.

Future Developments

Region	Number of Assets	Estimated Potential Development Density (SF)				Estimated Commercial SF / Multifamily Units to be Replaced ⁽¹⁾	Estimated Total Investment (In thousands)
		Total	Office	Multifamily	Retail		
Owned							
D.C.							
D.C.	8	1,678,400	312,100	1,357,300	9,000	—	\$ 106,283
VA							
National Landing ⁽²⁾	15	11,038,400	7,551,200	3,341,700	145,500	229,459 SF	353,305
Reston	5	3,483,200	1,299,800	1,971,400	212,000	15 units	79,154
Other VA	4	220,600	88,200	121,300	11,100	21,544 SF	9,081
	24	14,742,200	8,939,200	5,434,400	368,600	251,003 SF / 15 units	441,540
MD							
Silver Spring	1	1,276,300	—	1,156,300	120,000	170 units	46,660
Greater Rockville	4	126,500	19,200	88,600	18,700	—	4,294
	5	1,402,800	19,200	1,244,900	138,700	170 units	50,954
Total / weighted average	37	17,823,400	9,270,500	8,036,600	516,300	251,003 SF / 185 units	598,777
Optioned ⁽³⁾							
D.C.							
D.C.	3	1,793,600	78,800	1,498,900	215,900	—	114,888
VA							
Other VA	1	11,300	—	10,400	900	—	1,071
Total / weighted average	4	1,804,900	78,800	1,509,300	216,800	—	115,959
Total / Weighted Average	41	19,628,300	9,349,300	9,545,900	733,100	251,003 SF / 185 units	\$ 714,736

Note: At JBG SMITH share.

(1) Represents management's estimate of the total office and/or retail rentable square feet and multifamily units that would need to be redeveloped to access some of the estimated potential development density.

(2) Includes 4.1 million square feet of estimated potential development density that JBG SMITH intends to sell to Amazon for \$294.0 million.

(3) As of December 31, 2018, the weighted average remaining term for the optioned future development assets is 5.5 years.

Major Tenants

The following table sets forth information for our 10 largest tenants by annualized rent for the year ended December 31, 2018:

Tenant	Number of Leases	At JBG SMITH Share				
		Square Feet	% of Total Square Feet	Annualized Rent (In thousands)	% of Total Annualized Rent	
GSA	66	2,487,060	25.6%	\$ 98,745	23.2%	
Gartner, Inc.	1	348,847	3.6%	21,629	5.1%	
Family Health International	3	295,977	3.0%	14,677	3.5%	
Lockheed Martin Corporation	3	274,361	2.8%	13,330	3.1%	
WeWork ⁽¹⁾	2	205,565	2.1%	10,890	2.6%	
Arlington County	3	237,001	2.4%	9,987	2.4%	
Accenture LLP	2	130,716	1.3%	7,371	1.7%	
Greenberg Traurig LLP	1	116,067	1.2%	7,136	1.7%	
Public Broadcasting Service	1	140,885	1.5%	5,811	1.4%	
Evolent Health LLC	1	90,905	0.9%	4,814	1.1%	
Total	83	4,327,384	44.4%	\$ 194,390	45.8%	

Note: Includes all in-place leases as of December 31, 2018 for office and retail space within JBG SMITH's operating portfolio.

⁽¹⁾ Excludes the WeLive lease at 2221 South Clark Street.

Lease Expirations

The following table sets forth as of December 31, 2018 the scheduled expirations of tenant leases in our operating portfolio for each year from 2019 through 2027 and thereafter, assuming no exercise of renewal options or early termination rights:

Year of Lease Expiration	At JBG SMITH Share						
	Number of Leases	Square Feet	% of Total Square Feet	Annualized Rent (in thousands)	% of Total Annualized Rent	Annualized Rent Per Square Foot	Estimated Annualized Rent Per Square Foot at Expiration ⁽¹⁾
Month-to-Month	58	268,723	2.8%	\$ 10,859	2.6%	\$ 40.41	\$ 40.41
2019	136	779,695	8.0%	33,120	7.8%	42.48	42.79
2020	141	1,136,248	11.7%	48,307	11.4%	42.51	43.64
2021	117	914,267	9.4%	42,240	9.9%	46.20	48.78
2022	97	1,334,682	13.7%	58,200	13.7%	43.61	45.20
2023	89	561,432	5.8%	23,483	5.5%	41.83	45.91
2024	81	933,791	9.6%	43,036	10.1%	46.09	50.73
2025	47	386,267	4.0%	14,634	3.4%	37.89	42.58
2026	56	320,468	3.3%	13,649	3.2%	42.59	49.99
2027	44	427,730	4.4%	18,278	4.3%	42.73	51.25
Thereafter	107	2,651,778	27.3%	118,979	28.1%	44.87	57.53
Total / Weighted Average	973	9,715,081	100.0%	\$ 424,785	100.0%	\$ 43.72	\$ 49.29

Note: Includes all in-place leases as of December 31, 2018 for office and retail space within JBG SMITH's operating portfolio.

⁽¹⁾ Represents monthly base rent before free rent, plus tenant reimbursements, as of lease expiration multiplied by 12 and divided by square feet. Triple net leases are converted to a gross basis by adding tenant reimbursements to monthly base rent. Tenant reimbursements at lease expiration are estimated by escalating tenant reimbursements as of December 31, 2018, or management's estimate thereof, by 2.75% annually through the lease expiration year.

ITEM 3. LEGAL PROCEEDINGS

We are, from time to time, involved in legal actions arising in the ordinary course of business. In our opinion, the outcome of such matters is not expected to have a material adverse effect on our financial position, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information and Dividends

Our common shares began regular way trading on the New York Stock Exchange, or NYSE, on July 18, 2017, under the symbol "JBGS." On February 20, 2019, there were 902 holders of record of our common shares. This does not reflect individuals or other entities who hold their shares in "street name."

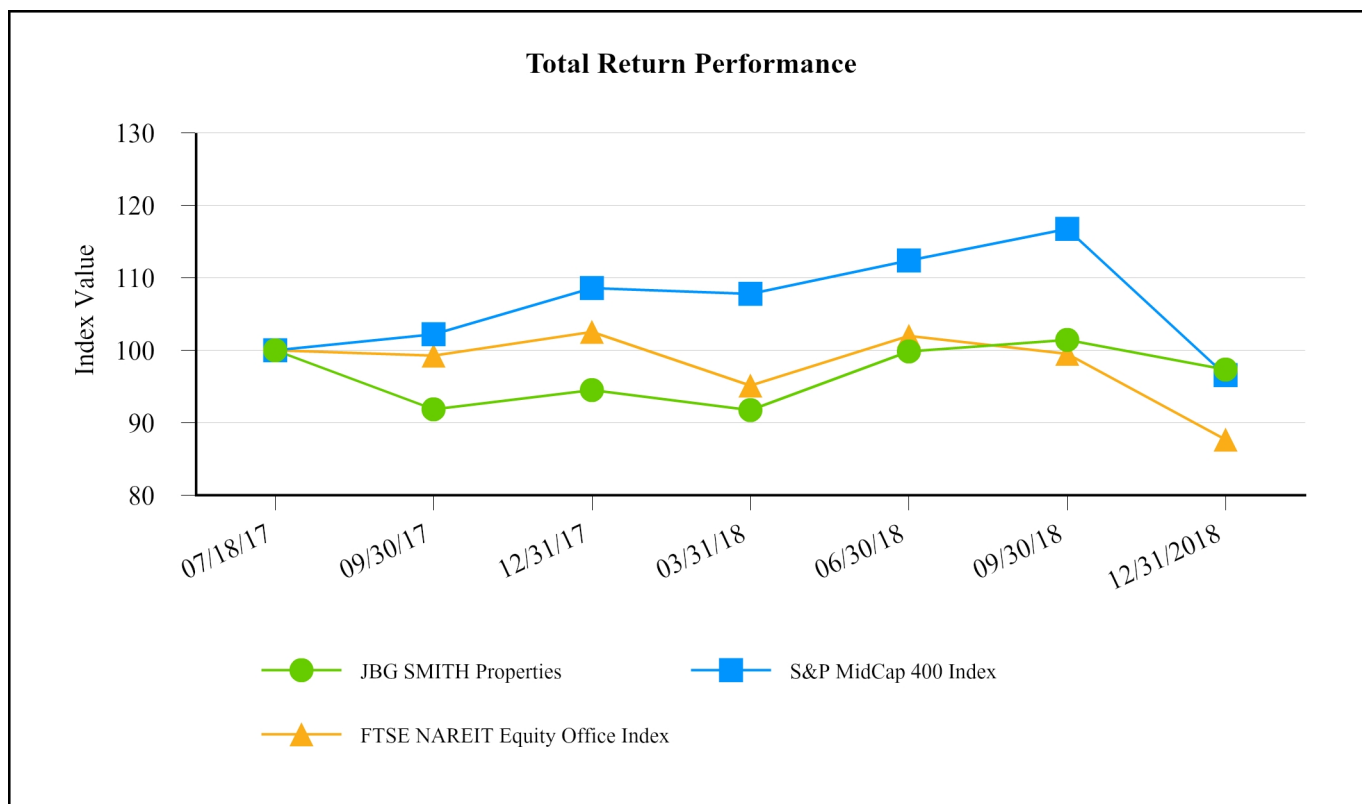
Dividends declared in 2018 totaled \$1.00 per common share (regular quarterly dividends of \$0.225 per common share each quarter plus a special dividend of \$0.10 per common share). Dividends declared in 2017 totaled \$0.45 per common share (regular quarterly dividends of \$0.225 per common share each quarter following the Formation Transaction). While future declarations of dividends will be made at the discretion of our Board of Trustees and will depend upon cash generated by our operating activities, our financial condition, capital requirements, annual distribution requirements under the REIT provisions of the Code and such other factors as our Board of Trustees deems relevant, management expects regular quarterly dividends in 2019 will be comparable in amount with those declared in 2018. To qualify for the beneficial tax treatment accorded to REITs under the Code, we are currently required to make distributions to holders of our shares in an amount equal to at least 90% of our REIT taxable income as defined in Section 857 of the Code.

The annual dividend amounts are different from dividends as calculated for federal income tax purposes. Distributions to the extent of our current and accumulated earnings and profits for federal income tax purposes generally will be taxable to a shareholder as ordinary dividend income. Distributions in excess of current and accumulated earnings and profits will be treated as a nontaxable reduction of the shareholder's basis in such shareholder's shares, to the extent thereof, and thereafter as taxable capital gain. Distributions that are treated as a reduction of the shareholder's basis in its shares will have the effect of increasing the amount of gain, or reducing the amount of loss, recognized upon the sale of the shareholder's shares. No assurances can be given regarding what portion, if any, of distributions in 2019 or subsequent years will constitute a return of capital for federal income tax purposes. During a year in which a REIT earns a net long-term capital gain, the REIT can elect under Section 857(b)(3) of the Code to designate a portion of dividends paid to shareholders as capital gain dividends. If this election is made, the capital gain dividends are generally taxable to the shareholder as long-term capital gains.

Performance Graph

This performance graph shall not be deemed "soliciting material" or to be "filed" with the SEC for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any of our filings of under the Securities Act or the Exchange Act.

The graph below compares the cumulative total return of our common shares, the S&P MidCap 400 Index and the FTSE NAREIT Equity Office Index, from July 18, 2017 (the completion date of the Formation Transaction) through December 31, 2018. The comparison assumes \$100 was invested on July 18, 2017 in our common shares and in each of the foregoing indexes and assumes reinvestment of dividends, as applicable. We have included the FTSE NAREIT Equity Office Index because we believe that it is representative of the industry in which we compete and is relevant to an assessment of our performance. 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.



	<i>Period Ending</i>						
	<u>7/18/2017</u>	<u>9/30/2017</u>	<u>12/31/2017</u>	<u>3/31/2018</u>	<u>6/30/2018</u>	<u>9/30/2018</u>	<u>12/31/2018</u>
JBG SMITH Properties	100.00	91.86	94.51	91.74	99.85	101.46	97.36
S&P MidCap 400 Index	100.00	102.22	108.61	107.78	112.40	116.75	96.58
FTSE NAREIT Equity Office Index	100.00	99.26	102.57	95.14	102.02	99.52	87.70

Sales of Unregistered Shares

During the year ended December 31, 2018, we did not sell any unregistered securities.

Repurchases of Equity Securities

During the year ended December 31, 2018, we did not repurchase any of our equity securities.

Equity Compensation Plan Information

Information regarding equity compensation plans is presented in Part III, Item 12 of this Annual Report on Form 10-K and incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

The following table includes selected consolidated and combined financial data set forth as of and for each of the five years in the period ended December 31, 2018. The consolidated balance sheets as of December 31, 2018 and 2017 reflect the consolidation of properties that are wholly owned and properties in which we own less than 100% interest, including JBG SMITH LP, but in which we have a controlling interest. The consolidated statement of operations for the year ended December 31, 2018 includes our consolidated accounts. The consolidated and combined statement of operations for the year ended December 31, 2017 includes our consolidated accounts and the combined accounts of the Vornado Included Assets. Accordingly, the results presented for the year ended December 31, 2017 reflect the operations, comprehensive income (loss), and changes in cash flows and equity on a carved-out and combined basis for the period from January 1, 2017 through the date of the Separation and on a consolidated basis subsequent to the Separation. Consequently, our results for the periods before and after the Formation Transaction are not directly

comparable. The financial data for the periods prior to the Separation are derived from audited combined financial statements. This selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations", and our audited consolidated and combined financial statements and related notes included in Part II, Items 7 and 8 of this Annual Report on Form 10-K.

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(In thousands, except per share data)				
Statement of Operations Data:					
Total revenue	\$ 644,182	\$ 543,013	\$ 478,519	\$ 470,607	\$ 472,923
Depreciation and amortization	211,436	161,659	133,343	144,984	112,046
Property operating	148,081	118,836	100,304	101,511	101,597
Real estate taxes	71,054	66,434	57,784	58,874	56,165
General and administrative:					
Corporate and other	33,728	39,350	48,753	44,424	46,188
Third-party real estate services	89,826	51,919	19,066	18,217	18,308
Share-based compensation related to Formation Transaction and special equity awards	36,030	29,251	—	—	—
Transaction and other costs	27,706	127,739	6,476	—	—
Total expenses	617,861	595,188	365,726	368,010	334,304
Other income (expense):					
Income (loss) from unconsolidated real estate ventures, net	39,409	(4,143)	(947)	(4,283)	(1,278)
Interest and other income, net	15,168	1,788	2,992	2,557	1,338
Interest expense	(74,447)	(58,141)	(51,781)	(50,823)	(57,137)
Gain on sale of real estate	52,183	—	—	—	—
Loss on extinguishment of debt	(5,153)	(701)	—	—	—
Gain (reduction of gain) on bargain purchase	(7,606)	24,376	—	—	—
Total other income (expense)	19,554	(36,821)	(49,736)	(52,549)	(57,077)
Income (loss) before income tax benefit (expense)	45,875	(88,996)	63,057	50,048	81,542
Income tax benefit (expense)	738	9,912	(1,083)	(420)	(242)
Net income (loss)	46,613	(79,084)	61,974	49,628	81,300
Net (income) loss attributable to redeemable noncontrolling interests	(6,710)	7,328	—	—	—
Net loss attributable to noncontrolling interest	21	3	—	—	—
Net income (loss) attributable to common shareholders	\$ 39,924	\$ (71,753)	\$ 61,974	\$ 49,628	\$ 81,300
Earnings (loss) per common share:					
Basic	\$ 0.31	\$ (0.70)	\$ 0.62	\$ 0.49	\$ 0.81
Diluted	\$ 0.31	\$ (0.70)	0.62	0.49	0.81
Weighted average number of common shares outstanding - basic and diluted	119,176	105,359	100,571	100,571	100,571
Dividends declared per common share	\$ 1.00	\$ 0.45	\$ —	\$ —	\$ —
Balance Sheet Data:					
Real estate, net	\$ 4,740,859	\$ 5,006,174	\$ 3,224,622	\$ 3,129,973	\$ 3,011,407
Total assets	5,997,285	6,071,807	3,660,640	3,575,878	3,357,744
Mortgages payable, net	1,838,381	2,025,692	1,165,014	1,302,956	1,277,889
Revolving credit facility	—	115,751	—	—	—
Unsecured term loan, net	297,129	46,537	—	—	—
Redeemable noncontrolling interests	558,140	609,129	—	—	—
Total equity	2,987,352	2,974,814	2,121,984	2,059,491	1,988,915
Cash Flow Statement Data:					
Provided by operating activities	\$ 188,193	\$ 74,183	\$ 159,541	\$ 178,230	\$ 187,386
Provided by (used in) investing activities	66,327	(7,676)	(258,807)	(236,617)	(239,336)
Provided by (used in) financing activities	(193,545)	239,787	51,083	122,671	33,353

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

The following discussion should be read in conjunction with the consolidated and combined financial statements and notes thereto appearing in Item 8 - Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

Organization and Basis of Presentation

JBG SMITH was organized by Vornado as a Maryland REIT on October 27, 2016 for the purpose of receiving, via the spin-off on July 17, 2017, substantially all of the assets and liabilities of Vornado's Washington, D.C. segment, which operated as Vornado / Charles E. Smith. On July 18, 2017, JBG SMITH acquired the management business and certain assets and liabilities of JBG. Substantially all of our assets are held by, and our operations are conducted through, JBG SMITH LP.

Prior to the Separation from Vornado, JBG SMITH was a wholly owned subsidiary of Vornado and had no material assets or operations. On July 17, 2017, Vornado distributed 100% of the then outstanding common shares of JBG SMITH on a pro rata basis to the holders of its common shares. Prior to such distribution by Vornado, Vornado Realty L.P. ("VRLP"), Vornado's operating partnership, distributed OP Units in JBG SMITH LP on a pro rata basis to the holders of VRLP's common limited partnership units, consisting of Vornado and the other common limited partners of VRLP. Following such distribution by VRLP and prior to such distribution by Vornado, Vornado contributed to JBG SMITH all of the OP Units it received in exchange for common shares of JBG SMITH. Each Vornado common shareholder received one JBG SMITH common share for every two Vornado common shares held as of the close of business on July 7, 2017 (the "Record Date"). Vornado and each of the other limited partners of VRLP received one JBG SMITH LP OP Unit for every two common limited partnership units in VRLP held as of the close of business on the Record Date.

Our operations are presented as if the transfer of the Vornado Included Assets had been consummated prior to all historical periods presented in the accompanying consolidated and combined financial statements at the carrying amounts of such assets and liabilities reflected in Vornado's books and records. The assets and liabilities of the JBG Assets and subsequent results of operations and cash flows are reflected in our consolidated and combined financial statements beginning on the date of the Combination.

The following is a discussion of the historical results of operations and liquidity and capital resources of JBG SMITH as of December 31, 2018 and 2017, and for each of the three years in the period ended December 31, 2018, which includes results prior to the consummation of the Formation Transaction. The historical results presented prior to the consummation of the Formation Transaction include the Vornado Included Assets, all of which were under common control of Vornado until July 17, 2017. Unless otherwise specified, the discussion of the historical results prior to July 18, 2017 does not include the results of the JBG Assets. Consequently, our results for the periods before and after the Formation Transaction are not directly comparable.

References to the financial statements refer to our consolidated and combined financial statements as of December 31, 2018 and 2017, and for each of the three years in the period ended December 31, 2018. References to the balance sheets refer to our consolidated balance sheets as of December 31, 2018 and 2017. References to the statements of operations refer to our consolidated and combined statements of operations for each of the three years in the period ended December 31, 2018. References to the statements of cash flows refer to our consolidated and combined statements of cash flows for each of the three years in the period ended December 31, 2018.

The accompanying financial statements are prepared in accordance with GAAP. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates. The historical financial results for the Vornado Included Assets reflect charges for certain corporate costs allocated by the former parent which were based on either actual costs incurred or a proportion of costs estimated to be applicable to the Vornado Included Assets based on an analysis of key metrics, including total revenues. Such costs do not necessarily reflect what the actual costs would have been if JBG SMITH had been operating as a separate standalone public company. These charges are discussed further in Note 20 to the financial statements included herein.

We have elected to be taxed as a REIT under sections 856-860 of the Code. Under those sections, a REIT which distributes at least 90% of its REIT taxable income as dividends to its shareholders each year and which meets certain other conditions will not be taxed on that portion of its taxable income which is distributed to its shareholders. Prior to the Separation, Vornado operated as a REIT and distributed 100% of its REIT taxable income to its shareholders; accordingly, no provision for federal income taxes has been made in the accompanying financial statements for the periods prior to the Separation. We have adhered and intend to continue to adhere to these requirements and maintain our REIT status in future periods.

As a REIT, we can reduce our taxable income by distributing all or a portion of such taxable income to shareholders. Future distributions will be declared and paid at the discretion of the Board of Trustees and will depend upon cash generated by operating

activities, our financial condition, capital requirements, annual dividend requirements under the REIT provisions of the Code, and such other factors as our Board of Trustees deems relevant.

We also participate in the activities conducted by our subsidiary entities that have elected to be treated as TRSs under the Code. As such, we are subject to federal, state, and local taxes on the income from these activities. Income taxes attributable to our TRSs are accounted for under the asset and liability method. Under the asset and liability method, deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future.

We aggregate our operating segments into three reportable segments (commercial, multifamily, and third-party asset management and real estate services) based on the economic characteristics and nature of our assets and services.

We compete with a large number of property owners and developers. Our success depends upon, among other factors, trends affecting national and local economies, the financial condition and operating results of current and prospective tenants, the availability and cost of capital, interest rates, construction and renovation costs, taxes, governmental regulations and legislation, population trends, zoning laws, and our ability to lease, sublease or sell our assets at profitable levels. Our success is also subject to our ability to refinance existing debt on acceptable terms as it comes due.

Overview

We own and operate a portfolio of high-quality commercial and multifamily assets, many of which are amenitized with ancillary retail. Our portfolio reflects our longstanding strategy of owning and operating assets within Metro-served submarkets in the Washington, D.C. metropolitan area that have high barriers to entry and key urban amenities, including being within walking distance of a Metro station. On November 13, 2018, Amazon announced publicly the selection of sites that we own in National Landing as the location of Amazon HQ2, subject to negotiation and execution of definitive documentation between Amazon and JBG SMITH, and subject to the approval of tax incentives by the Commonwealth of Virginia and Arlington County. We anticipate that we will enter into agreements with Amazon pursuant to which Amazon will engage us as its development manager, property manager, and retail leasing agent for Amazon HQ2. In addition, we granted Amazon the exclusive right for a limited time to lease approximately 500,000 square feet of existing office space at 241 18th Street S., 1800 South Bell Street and 1770 Crystal Drive, and the right to acquire the Pen Place and Met 6, 7 and 8 land in our future development pipeline with estimated potential development density of up to approximately 4.1 million square feet.

During 2018, we sold or recapitalized approximately \$875.0 million of assets that were identified for sale because of their relatively low expected return potential and their high tax basis, enabling better capital retention. The assets sold generated approximately \$30.0 million of NOI in 2018. Also, consistent with our approach to capital recycling, in the competitive Washington, D.C. office leasing market, we are focused on retaining tenants and avoiding the costly concessions associated with backfilling vacancy. We believe this approach produces a higher comparable return while better positioning assets for potential sale or recapitalization, and simultaneously de-risking them at a time of greater supply and cyclical downturn risk. The lease renewals we executed in 2017 and 2018 will further reduce our NOI in 2019, primarily due to free rent associated with these early renewals. As the free rent in these leases burns off, and our under construction assets deliver, we expect our NOI to grow and surpass 2018 levels by the second half of 2020.

As of December 31, 2018, our Operating Portfolio consists of 62 operating assets comprising 46 commercial assets totaling approximately 12.9 million square feet (11.3 million square feet at our share) and 16 multifamily assets totaling 6,315 units (4,531 units at our share). Additionally, we have (i) nine assets under construction comprising five commercial assets totaling approximately 1.2 million square feet (927,000 square feet at our share) and four multifamily assets totaling 1,476 units (1,298 units at our share); and (ii) 41 future development assets totaling approximately 23.1 million square feet (19.6 million square feet at our share) of estimated potential development density.

Key highlights of operating results for the year ended December 31, 2018 included:

- net income attributable to common shareholders of \$39.9 million, or \$0.31 per diluted common share, for the year ended December 31, 2018 as compared to a net loss of \$71.8 million, or \$0.70 per diluted common share, for the year ended December 31, 2017. Net income attributable to common shareholders for the year ended December 31, 2018 included gains on the sale of real estate of \$52.2 million and transaction and other costs of \$27.7 million. Net loss attributable to common shareholders for the year ended December 31, 2017 included transaction and other costs of \$127.7 million and a gain on bargain purchase of \$24.4 million;
- operating commercial portfolio leased and occupied percentages at our share of 89.6% and 85.5% as of December 31, 2018 compared to 88.0% and 87.2% as of December 31, 2017;
- operating multifamily portfolio leased and occupied percentages at our share of 95.7% and 93.9% as of December 31, 2018 compared to 95.7% and 93.8% as of December 31, 2017;

- the leasing of approximately 2.0 million square feet, or 1.8 million square feet at our share, at an initial rent⁽¹⁾ of \$46.64 per square foot and a GAAP-basis weighted average rent per square foot⁽²⁾ of \$48.39 for the year ended December 31, 2018; and
- a decrease in same store⁽³⁾ net operating income of 1.1% to \$250.3 million for the year ended December 31, 2018 as compared to \$253.0 million for the year ended December 31, 2017.

⁽¹⁾ Represents the cash basis weighted average starting rent per square foot, which excludes free rent and fixed escalations.

⁽²⁾ Represents the weighted average rent per square foot that is recognized over the term of the respective leases, including the effect of free rent and fixed escalations.

⁽³⁾ Includes the results of the properties that are owned, operated and in service for the entirety of both periods being compared except for properties for which significant redevelopment, renovation or repositioning occurred during either of the periods being compared. Excludes the JBG Assets acquired in the Combination.

Additionally, investing and financing activity during the year ended December 31, 2018 included:

- the sale of four commercial assets located in Washington D.C. and Reston, Virginia, a future development asset located in Reston, Virginia, and the out-of-service portion of a multifamily asset located in Silver Spring, Maryland, for an aggregate gross sales price of \$427.4 million, resulting in gains on sale of real estate of \$52.2 million. See Note 4 to the financial statements for additional information;
- the leasing of the unimproved land at 1700 M Street for a 99-year term, with no extension options;
- the acquisition of a 4.25-acre land parcel, Potomac Yard Land Bay H located in Alexandria, Virginia, for \$23.0 million;
- the closing of a real estate venture with Canadian Pension Plan Investment Board ("CPPIB") to develop and own 1900 N Street, an under construction commercial asset in Washington, D.C. We contributed 1900 N Street, valued at \$95.9 million, to the real estate venture, and CPPIB has committed to contribute approximately \$101.3 million to the venture for a 45.0% interest, which will reduce our ownership interest from 100.0% at the real estate venture's formation to 55.0% as contributions are funded;
- the investment of \$10.1 million for a 16.67% interest in a real estate venture with CIM Group and Pacific Life Insurance Company, which purchased the 1,152-key Wardman Park hotel, located adjacent to the Woodley Park Metro Station in northwest Washington, D.C.;
- the acquisition by our partner in the real estate venture that owned the Investment Building, a 401,000 square foot office building located in Washington, D.C., of our 5.0% interest in the venture for \$24.6 million, resulting in a gain of \$15.5 million;
- the sale of The Warner, a 583,000 square foot office building located in Washington, D.C., by our unconsolidated real estate venture with CPPIB for \$376.5 million. In connection with the sale, the unconsolidated real estate venture recognized a gain on sale of \$32.5 million, of which our proportionate share was \$20.6 million;
- a \$50.0 million draw under our unsecured term loan maturing in January 2023, in accordance with the delayed draw provisions of the credit facility, bringing the outstanding borrowings under the term loan facility to \$100.0 million. Concurrent with the draw, we entered into an interest rate swap agreement effectively to convert the variable interest rate to a fixed interest rate;
- a \$200.0 million draw under our unsecured term loan maturing in July 2024, in accordance with the delayed draw provisions of the credit facility. We also repaid all outstanding revolving credit facility balances;
- aggregate borrowings under mortgages payable totaling \$118.1 million, of which \$47.5 million relates to the principal balance on a new mortgage loan collateralized by 1730 M Street and the remainder related to construction draws under mortgages payable;
- the repayment of mortgages payable with an aggregate principal balance of \$298.1 million and recognized losses on the extinguishment of debt in conjunction with these repayments of \$5.2 million;
- declared cash dividends totaling \$1.00 (regular dividends of \$0.90 per common share and a special dividend of \$0.10 per common share). Regular quarterly dividends declared in December 2018 of \$0.225 per common share and a special dividend of \$0.10 per common share were paid in January 2019; and
- the investment of \$385.9 million in development costs, construction in progress and real estate additions.

Activity subsequent to December 31, 2018 included:

- the sale of Commerce Executive, an office building located in Reston, Virginia, for the gross sales price of \$115.0 million;
- the issuance of an additional 442,395 long-term incentive partnership units ("LTIP Units") and 477,640 performance-based LTIP Units ("Performance-Based LTIP Units") to management and employees with an estimated aggregate fair value of \$24.5 million; and
- the redemption of 1.7 million OP units, which we elected to redeem for an equivalent number of our common shares.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP, requires management to make estimates and assumptions that in certain circumstances may significantly impact our financial results. These estimates are prepared using management's best judgment, after considering past and current events and economic conditions. In addition, certain information relied upon by management in preparing such estimates includes internally generated financial and operating information, external market information, when available, and when necessary, information obtained from consultations with third-party experts. Actual results could differ from these estimates. We consider an accounting estimate to be critical if changes in the estimate could have a material impact on our consolidated and combined results of operations or financial condition.

Our significant accounting policies are more fully described in Note 2 to the financial statements included in Part II, Item 8 of this Annual Report on Form 10-K; however, the most critical accounting policies, which involve the use of estimates and assumptions as to future uncertainties and, therefore, may result in actual amounts that differ from estimates, are as follows:

Business Combinations

We account for business combinations, including the acquisition of real estate, using the acquisition method pursuant to which we recognize and measure the identifiable assets acquired, liabilities assumed, and any noncontrolling interests in the acquiree at their acquisition date fair values. Accordingly, we estimate the fair values of acquired tangible assets (consisting of real estate, cash and cash equivalents, tenant and other receivables, investments in unconsolidated real estate ventures and other assets, as applicable), identified intangible assets and liabilities (consisting of the value of in-place leases, above- and below-market leases, options to enter into ground leases and management contracts, as applicable), assumed debt and other liabilities, and noncontrolling interests, as applicable, based on our evaluation of information and estimates available at that date. Based on these estimates, we allocate the purchase price to the identified assets acquired and liabilities assumed. Any excess of the purchase price over the estimated fair value of the net assets acquired is recorded as goodwill. Any excess of the fair value of assets acquired over the purchase price is recorded as a gain on bargain purchase. If, up to one year from the acquisition date, information regarding the fair value of the net assets acquired and liabilities assumed is received and estimates are refined, appropriate adjustments are made on a prospective basis to the purchase price allocation, which may include adjustments to identified assets, assumed liabilities, and goodwill or the gain on bargain purchase, as applicable. The results of operations of acquisitions are prospectively included in our financial statements beginning with the date of the acquisition. Transaction costs related to business combinations are expensed as incurred and included in "Transaction and other costs" in our statements of operations.

The fair values of buildings are determined using the "as-if vacant" approach whereby we use discounted income or cash flow models with inputs and assumptions that we believe are consistent with current market conditions for similar assets. The most significant assumptions in determining the allocation of the purchase price to buildings are the exit capitalization rate, discount rate, estimated market rents and hypothetical expected lease-up periods. We assess fair value of land based on market comparisons and development projects using an income approach of cost plus a margin.

The fair values of identified intangible assets are determined based on the following:

- The value allocable to the above- or below-market component of an acquired in-place lease is determined based upon the present value (using a discount rate which reflects the risks associated with the acquired leases) of the difference between (i) the contractual amounts to be received pursuant to the lease over its remaining term and (ii) management's estimate of the amounts that would be received using market rates over the remaining term of the lease. Amounts allocated to above-market leases are recorded as "Identified intangible assets" in "Other assets, net" in the balance sheets, and amounts allocated to below-market leases are recorded as "Lease intangible liabilities" in "Other liabilities, net" in the balance sheets. These intangibles are amortized to "Property rentals" in our statements of operations over the remaining terms of the respective leases.
- Factors considered in determining the value allocable to in-place leases during hypothetical lease-up periods related to space that is leased at the time of acquisition include (i) lost rent and operating cost recoveries during the hypothetical lease-up period and (ii) theoretical leasing commissions required to execute similar leases. These intangible assets are recorded as "Identified intangible assets" in "Other assets, net" in the balance sheets and are amortized to "Depreciation and amortization expenses" in our statements of operations over the remaining term of the existing lease.
- The fair value of the in-place property management, leasing, asset management, and development and construction management contracts is based on revenue and expense projections over the estimated life of each contract discounted using a market discount rate. These management contract intangibles are amortized to "Depreciation and amortization expenses" in our statements of operations over the weighted average life of the management contracts.

The fair value of investments in unconsolidated real estate ventures and related noncontrolling interests is based on the estimated fair values of the identified assets acquired and liabilities assumed of each venture, including future expected cash flows from promote interests.

The fair value of the mortgages payable assumed is determined using current market interest rates for comparable debt financings. The fair values of the interest rate swaps and caps are based on the estimated amounts we would receive or pay to terminate the contract at the acquisition date and are determined using interest rate pricing models and observable inputs. The carrying value of cash, restricted cash, working capital balances, leasehold improvements and equipment, and other assets acquired and liabilities assumed approximates fair value.

Real Estate

Real estate is carried at cost, net of accumulated depreciation and amortization. Maintenance and repairs are expensed as incurred and are included in "Property operating expenses" in our statements of operations. As real estate is undergoing redevelopment activities, all property operating expenses directly associated with and attributable to the redevelopment, including interest expense, are capitalized to the extent that we believe such costs are recoverable through the value of the property. The capitalization period ends when redevelopment activities are substantially complete. General and administrative costs are expensed as incurred. Depreciation requires an estimate of the useful life of each property and improvement as well as an allocation of the costs associated with a property to its various components. Depreciation is recognized on a straight-line basis over estimated useful lives, which range from three to 40 years. Tenant improvements are amortized on a straight-line basis over the lives of the related leases, which approximate the useful lives of the tenant improvements. When assets are sold or retired, their costs and related accumulated depreciation are removed from the accounts with the resulting gains or losses reflected in net income or loss for the period in "Depreciation and amortization expense."

Construction in progress, including land, is carried at cost, and no depreciation is recorded. Real estate undergoing significant renovations and improvements is considered to be under development. All direct and indirect costs related to development activities are capitalized into "Construction in progress, including land" on our balance sheets, except for certain demolition costs, which are expensed as incurred. Direct development costs incurred include: pre-development expenditures directly related to a specific project, development and construction costs, interest, insurance and real estate taxes. Indirect development costs include: employee salaries and benefits, travel and other related costs that are directly associated with the development. Our method of calculating capitalized interest expense is based upon applying our weighted average borrowing rate to the actual accumulated expenditures if the property does not have property specific debt. If the property is encumbered by specific debt, we will capitalize both the interest incurred applicable to that debt and additional interest expense using our weighted average borrowing rate for any accumulated expenditures in excess of the principal balance of the debt encumbering the property. The capitalization of such expenses ceases when the real estate is ready for its intended use, but no later than one-year from substantial completion of major construction activity. If we determine that a construction project is no longer viable, all capitalized pre-development project costs are immediately expensed.

Our assets and related intangible assets are individually reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An impairment exists when the carrying amount of an asset exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Estimates of future cash flows are based on our current plans, intended holding periods and available market information at the time the analyses are prepared. An impairment loss is recognized if the carrying amount of the asset is not recoverable and is measured based on the excess of the property's carrying amount over its estimated fair value. If our estimates of future cash flows, anticipated holding periods, or fair values change, based on market conditions or otherwise, our evaluation of impairment charges may be different and such differences could be material to our financial statements. Estimates of future cash flows are subjective and are based, in part, on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results.

Investments in and Advances to Real Estate Ventures

We analyze our real estate ventures to determine whether the entities should be consolidated. If it is determined that these investments do not require consolidation because the entities are not VIEs in accordance with the Consolidation Topic of the FASB ASC, we are not considered the primary beneficiary of the entities determined to be VIEs, we do not have voting control, and/or the limited partners (or non-managing members) have substantive participatory rights, then the selection of the accounting method used to account for our investments in unconsolidated real estate ventures is generally determined by our voting interests and the degree of influence we have over the entity. Management uses its judgment when determining if we are the primary beneficiary of, or have a controlling financial interest in, an entity in which we have a variable interest. Factors considered in determining whether we have the power to direct the activities that most significantly impact the entity's economic performance include risk and reward sharing, experience and financial condition of the other partners, voting rights, involvement in day-to-day capital and operating decisions and the extent of our involvement in the entity.

We use the equity method of accounting for investments in unconsolidated real estate ventures when we own 20% or more of the voting interests and have significant influence but do not have a controlling financial interest, or if we own less than 20% of the voting interests but have determined that we have significant influence. Under the equity method, we record our investments in and advances to these entities in our balance sheets, and our proportionate share of earnings or losses earned by the real estate venture is recognized in "Income (loss) from unconsolidated real estate ventures, net" in the accompanying statements of operations. We earn revenues from the management services we provide to unconsolidated entities. These fees are determined in accordance with the terms specific to each arrangement and may include property and asset management fees or transactional fees for leasing, acquisition, development and construction, financing, and legal services provided. We account for this revenue gross of our ownership interest in each respective real estate venture and recognize such revenue in "Third-party real estate services, including reimbursements" in our statements of operations. Our proportionate share of related expenses is recognized in "Income (loss) from unconsolidated real estate ventures, net" in our statements of operations. We may also earn incremental promote distributions if certain financial return benchmarks are achieved upon ultimate disposition of the underlying properties. Management fees are recognized when earned, and promote fees are recognized when certain earnings events have occurred, and the amount is determinable and collectible. Any promote fees are reflected in "Income (loss) from unconsolidated real estate ventures, net" in our statements of operations.

On a periodic basis, we evaluate our investments in unconsolidated entities for impairment. We assess whether there are any indicators, including underlying property operating performance and general market conditions, that the value of our investments in unconsolidated real estate ventures may be impaired. An investment in a real estate venture is considered impaired if we determine that its fair value is less than the net carrying value of the investment in that real estate venture on an other-than-temporary basis. Cash flow projections for the investments consider property level factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other factors. We consider various qualitative factors to determine if a decrease in the value of our investment is other-than-temporary. These factors include age of the venture, our intent and ability to retain our investment in the entity, financial condition and long-term prospects of the entity and relationships with our partners and banks. If we believe that the decline in the fair value of the investment is temporary, no impairment charge is recorded. If our analysis indicates that there is an other-than temporary impairment related to the investment in a particular real estate venture, the carrying value of the venture will be adjusted to an amount that reflects the estimated fair value of the investment.

Revenue Recognition

Property rentals income includes base rents that each tenant pays in accordance with the terms of its respective lease and is reported on a straight-line basis over the non-cancellable term of the lease, which includes the effects of periodic step-ups in rent and rent abatements under the leases. We commence rental revenue recognition when the tenant takes possession of the leased space or controls the physical use of the leased space and the leased space is substantially ready for its intended use. In circumstances where we provide a tenant improvement allowance for improvements that are owned by the tenant, we recognize the allowance as a reduction of property rentals revenue on a straight-line basis over the term of the lease. Differences between rental income recognized and amounts due under the respective lease agreements are recorded as an increase or decrease to "Deferred rent receivable, net" on our balance sheets. Property rentals also includes the amortization/accretion of acquired above-and below-market leases.

Tenant reimbursements provide for the recovery of all or a portion of the operating expenses and real estate taxes of the respective assets. Tenant reimbursements are accrued in the same periods as the related expenses are incurred.

Third-party real estate services revenue, including reimbursements, is determined in accordance with the terms specific to each arrangement and may include property and asset management fees or transactional fees for leasing, acquisition, development and construction, financing, and legal services provided. These fees are determined in accordance with the terms specific to each arrangement and are recognized as the related services are performed. Development and construction fees earned from providing services to our unconsolidated real estate ventures are recorded on a percentage of completion basis.

Share-Based Compensation

The fair value of OP Units, formation awards, LTIP Units, LTIP Units with time-based vesting requirements, Performance-Based LTIP Units, and Employee Share Purchase Plan common shares granted to our trustees, management and employees is determined, depending on the type of award, using the Monte Carlo or Black-Scholes methods, which is intended to estimate the fair value of the awards at the grant date using dividend yields, expected volatilities that are primarily based on available implied data and peer group companies' historical data and post-vesting restriction periods. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The shortcut method is used for determining the expected life used in the valuation method.

Compensation expense is based on the fair value of our common shares at the date of the grant and is recognized ratably over the vesting period using a graded vesting attribution model. We account for forfeitures as they occur.

Recent Accounting Pronouncements

See Note 2 to the financial statements for a description of the potential impact of the adoption of any new accounting pronouncements.

Results of Operations

Comparison of the Year Ended December 31, 2018 to 2017

The following summarizes certain line items from our statements of operations that we believe are important in understanding our operations and/or those items which significantly changed in the year ended December 31, 2018 as compared to the same period in 2017:

	Year Ended December 31,		
	2018	2017	% Change
	(In thousands)		
Property rentals revenue	\$ 499,835	\$ 436,625	14.5 %
Tenant reimbursements revenue	39,290	37,985	3.4 %
Third-party real estate services revenue, including reimbursements	98,699	63,236	56.1 %
Depreciation and amortization expense	211,436	161,659	30.8 %
Property operating expense	148,081	118,836	24.6 %
Real estate taxes expense	71,054	66,434	7.0 %
General and administrative expense:			
Corporate and other	33,728	39,350	(14.3)%
Third-party real estate services	89,826	51,919	73.0 %
Share-based compensation related to Formation Transaction and special equity awards	36,030	29,251	23.2 %
Transaction and other costs	27,706	127,739	(78.3)%
Income (loss) from unconsolidated real estate ventures, net	39,409	(4,143)	*
Interest and other income, net	15,168	1,788	748.3 %
Interest expense	74,447	58,141	28.0 %
Gain on sale of real estate	52,183	—	*
Loss on extinguishment of debt	5,153	701	635.1 %
Gain (reduction of gain) on bargain purchase	(7,606)	24,376	*

* Not meaningful.

Property rentals revenue increased by approximately \$63.2 million, or 14.5%, to \$499.8 million in 2018 from \$436.6 million in 2017. The increase was primarily due to \$66.2 million of revenue associated with the assets acquired in the Combination, including \$32.4 million of revenue associated with placing CEB Tower at Central Place and 1221 Van Street into service, partially offset by a decrease of \$3.0 million in revenue associated with the Vornado Included Assets, primarily due to the sale of the Bowen building.

Tenant reimbursements revenue increased by approximately \$1.3 million, or 3.4%, to \$39.3 million in 2018 from \$38.0 million in 2017. The increase was primarily due to an increase of \$2.9 million associated with the assets acquired in the Combination, partially offset by a decrease of \$1.6 million associated with the Vornado Included Assets primarily due to lower tax assessments and the sale of the Bowen building, offset by an increase in construction services provided to tenants.

Third-party real estate services revenue, including reimbursements, increased by approximately \$35.5 million, or 56.1%, to \$98.7 million in 2018 from \$63.2 million in 2017. The increase was primarily due to the real estate services business acquired in the Combination, partially offset by lower payroll reimbursements related to third-party arrangements that were terminated during 2017 and early 2018.

Depreciation and amortization expense increased by approximately \$49.8 million, or 30.8%, to \$211.4 million in 2018 from \$161.7 million in 2017. The increase was primarily due to depreciation and amortization expense associated with the assets acquired in the Combination, including \$13.4 million of depreciation and amortization expense associated with placing CEB Tower at Central Place and 1221 Van Street into service and \$11.6 million related to the write-off of assets associated with the redevelopment of 1770 Crystal Drive.

Property operating expense increased by approximately \$29.2 million, or 24.6%, to \$148.1 million in 2018 from \$118.8 million in 2017. The increase was primarily due to property operating expense of \$20.4 million associated with the assets acquired in the Combination, including \$7.3 million of operating expense associated with placing CEB Tower at Central Place and 1221 Van Street into service and an increase of \$8.8 million associated with the Vornado Included Assets primarily due to higher ground rent, corporate allocation and marketing expenses, partially offset by the sale of the Bowen Building and Executive Tower and lower bad debt expense.

Real estate tax expense increased by approximately \$4.6 million, or 7.0%, to \$71.1 million in 2018 from \$66.4 million in 2017. The increase was primarily due to real estate tax expense of \$8.6 million associated with the assets acquired in the Combination, including \$2.6 million associated with placing CEB Tower at Central Place and 1221 Van Street into service, partially offset by a \$4.0 million decrease associated with the Vornado Included Assets due to lower tax assessments and the sale of the Bowen Building and Executive Tower.

General and administrative expense: corporate and other decreased by approximately \$5.6 million, or 14.3%, to \$33.7 million in 2018 from \$39.4 million in 2017. The decrease was due to lower corporate overhead costs in the 2018 period compared to the amount allocated and recorded in the 2017 period, including expenses incurred in the operation and management of our properties subsequent to the Formation Transaction that were previously included in general and administrative expenses. This decrease was partially offset by an increase in general and administrative expenses associated with the operations acquired in the Combination.

General and administrative expense: third-party real estate services increased by approximately \$37.9 million, or 73.0%, to \$89.8 million in 2018 from \$51.9 million in 2017 primarily due to the real estate services business acquired in the Combination.

General and administrative expense: share-based compensation related to Formation Transaction and special equity awards of \$36.0 million in 2018 and \$29.3 million in 2017 consists of expenses related to share-based compensation issued in connection with the Formation Transaction and special equity awards issued related to our successful pursuit of Amazon HQ2.

Transaction and other costs of \$27.7 million in 2018 comprised fees and expenses incurred in connection with the Formation Transaction (including transition services provided by our former parent, integration costs and severance costs) of \$15.9 million, costs related to other completed, potential and pursued transactions of \$9.0 million and costs related to the successful pursuit of Amazon HQ2 at our properties in National Landing of \$2.8 million. Transaction and other costs of \$127.7 million in 2017 consist primarily of fees and expenses incurred in connection with the Formation Transaction, including severance and transaction bonus expense of \$40.8 million, investment banking fees of \$33.6 million, legal fees of \$13.9 million and accounting fees of \$10.8 million.

Income from unconsolidated real estate ventures, net increased by approximately \$43.6 million to \$39.4 million in 2018 from a \$4.1 million loss in 2017. The increase was primarily due to the sale of The Warner by our unconsolidated real estate venture for a gain to us of \$20.6 million and the sale of our 5.0% interest in a real estate venture that owned the Investment Building, resulting in a gain of \$15.5 million.

Interest and other income increased by approximately \$13.4 million, or 748.3%, to \$15.2 million in 2018 from \$1.8 million in 2017. The increase was primarily due to the reduction of an assumed lease liability, higher interest income and higher income from other investments.

Interest expense increased by approximately \$16.3 million, or 28.0%, to \$74.4 million in 2018 from \$58.1 million in 2017. The increase was primarily due to interest expense associated with the assets acquired in the Combination, additional term loan borrowings and higher interest rates, partially offset by the repayment of mortgages.

Gain on the sale of real estate of \$52.2 million is primarily related to the sale of Summit I and II, the Bowen Building, Executive Tower, 1233 20th Street and the out-of-service portion of Falkland Chase - North during 2018. See Note 4 to the financial statements for additional information.

Loss on extinguishment of debt of \$5.2 million in 2018 and \$701,000 in 2017 is related to our repayment of various mortgages payable during the period.

The gain on bargain purchase of \$24.4 million in 2017 represents the fair value of the identifiable net assets acquired in excess of the purchase consideration in the Combination. The reduction of the gain on bargain purchase of \$7.6 million in 2018 is the result of finalizing the fair values used in the purchase price allocation related to the Combination.

Comparison of the Year Ended December 31, 2017 to 2016

The following summarizes certain line items from our statements of operations that we believe are important in understanding our operations and/or those items which significantly changed in the year ended December 31, 2017 as compared to the same period in 2016:

	Year Ended December 31,		
	2017	2016	% Change
	(In thousands)		
Property rentals revenue	\$ 436,625	\$ 401,595	8.7 %
Tenant reimbursements revenue	37,985	37,661	0.9 %
Third-party real estate services revenue, including reimbursements	63,236	33,882	86.6 %
Depreciation and amortization expense	161,659	133,343	21.2 %
Property operating expense	118,836	100,304	18.5 %
Real estate taxes expense	66,434	57,784	15.0 %
General and administrative expense:			
Corporate and other	39,350	48,753	(19.3)%
Third-party real estate services	51,919	19,066	172.3 %
Share-based compensation related to Formation Transaction and special equity awards	29,251	—	*
Transaction and other costs	127,739	6,476	1,872.5 %
Loss from unconsolidated real estate ventures, net	4,143	947	337.5 %
Interest expense	58,141	51,781	12.3 %
Loss on extinguishment of debt	701	—	*
Gain on bargain purchase	24,376	—	*
Net loss attributable to redeemable noncontrolling interests	7,328	—	*

* Not meaningful.

Property rentals revenue increased by approximately \$35.0 million, or 8.7%, to \$436.6 million in 2017 from \$401.6 million in 2016. The increase was primarily due to revenues of \$31.4 million associated with the JBG Assets acquired in the Combination and an increase of \$3.6 million in revenues associated with the Vornado Included Assets that were the existing assets in the prior period. The \$3.6 million increase in revenues associated with existing assets is primarily due to an increase in occupancy and associated rentals at The Bartlett multifamily asset as the property was placed into service in the second quarter of 2016 and rent commencements at 1215 S. Clark St, partially offset by a decrease in revenues at 1700 M Street and 1770 Crystal Drive, which were taken out of service.

Tenant reimbursements revenue increased by approximately \$324,000, or 0.9%, to \$38.0 million in 2017 from \$37.7 million in 2016. Revenue associated with existing assets decreased by \$2.8 million, primarily due to lower construction services provided to tenants and lower operating expenses, partially offset by an increase of \$3.1 million associated with the assets acquired in the Combination.

Third-party real estate services revenue, including reimbursements, increased by approximately \$29.4 million, or 86.6%, to \$63.2 million in 2017 from \$33.9 million in 2016. The increase was primarily due to the real estate services business acquired in the Combination, partially offset by lower management fees and leasing commissions from existing arrangements with third-parties.

Depreciation and amortization expense increased by approximately \$28.3 million, or 21.2%, to \$161.7 million in 2017 from \$133.3 million in 2016. The increase was primarily due to depreciation and amortization expense associated with the assets acquired in the Combination.

Property operating expense increased by approximately \$18.5 million, or 18.5%, to \$118.8 million in 2017 from \$100.3 million in 2016. The increase was primarily due to property operating expenses of \$10.4 million associated with the assets acquired in the Combination, an increase of \$7.8 million related to expenses incurred in the operation and management of our properties subsequent to the Formation Transaction that were previously included in general and administrative expenses, and an increase of approximately \$400,000 associated with existing assets due primarily to higher bad debt expense, partially offset by lower tenant services expense and lower utilities.

Real estate tax expense increased by approximately \$8.7 million, or 15.0%, to \$66.4 million in 2017 from \$57.8 million in 2016. The increase was primarily due to real estate tax expense of \$4.8 million associated with the assets acquired in the Combination, an increase in the tax assessments and lower capitalized real estate taxes.

General and administrative expense: corporate and other decreased by approximately \$9.4 million, or 19.3%, to \$39.4 million in 2017 from \$48.8 million in 2016. The decrease was due to lower corporate allocated overhead costs associated with our former parent and a decrease of \$7.8 million related to expenses incurred in the operation and management of our properties subsequent to the Formation Transaction that were previously included in general and administrative expenses, partially offset by an increase in general operating expenses associated with the operations acquired in the Combination.

General and administrative expense: third-party real estate services increased by approximately \$32.9 million, or 172.3%, to \$51.9 million in 2017 from \$19.1 million in 2016 primarily due to the real estate services business acquired in the Combination.

General and administrative expense: share-based compensation related to Formation Transaction and special equity awards of \$29.3 million in 2017 consists of expense related to share-based compensation issued in connection with the Formation Transaction.

Transaction and other costs of \$127.7 million in 2017 consists primarily of fees and expenses incurred in connection with the Formation Transaction, including severance and transaction bonus expense of \$40.8 million, investment banking fees of \$33.6 million, legal fees of \$13.9 million and accounting fees of \$10.8 million.

Loss from unconsolidated real estate ventures, net increased by approximately \$3.2 million to \$4.1 million in 2017 from \$947,000 in 2016. The increase in the loss was primarily due to losses from interests in real estate ventures acquired in the Combination, partially offset by an increase in equity income of approximately \$2.5 million primarily from the refinancing of the Warner Building mortgage loan in May 2016 at a lower interest rate and for a lower outstanding principal amount.

Interest expense increased by approximately \$6.4 million, or 12.3%, to \$58.1 million in 2017 from \$51.8 million in 2016. The increase was primarily due to \$3.3 million of interest expense associated with the assets acquired in the Combination and lower capitalized interest related to The Bartlett multifamily asset which was placed into service during the second quarter of 2016.

Loss on extinguishment of debt of \$701,000 in 2017 is related to the prepayment of mortgages payable.

The gain on bargain purchase of approximately \$24.4 million in 2017 represents the estimated fair value of the identifiable net assets acquired in excess of the purchase consideration in the Combination. The purchase consideration was based on the fair value of the common shares and OP Units issued in the Combination. See Note 3 to the financial statements for additional information.

Net loss attributable to redeemable noncontrolling interests of approximately \$7.3 million in 2017 relates to the allocation of net loss to the noncontrolling interests in JBG SMITH LP and 965 Florida Avenue.

NOI and Same Store NOI

We utilize NOI, which is a non-GAAP financial measure, to assess a segment's performance. The most directly comparable GAAP measure is net income (loss) attributable to common shareholders. We use NOI internally as a performance measure and believe NOI provides useful information to investors regarding our financial condition and results of operations because it reflects only property related revenue (which includes base rent, tenant reimbursements and other operating revenue) less operating expense, before deferred rent and related party management fees. Management uses NOI as a supplemental performance measure for our assets and believes it provides useful information to investors because it reflects only those revenue and expense items that are incurred at the asset level, excluding non-cash items. In addition, NOI is considered by many in the real estate industry to be a useful starting point for determining the value of a real estate asset or group of assets. However, because NOI excludes depreciation and amortization and captures neither the changes in the value of our assets that result from use or market conditions, nor the level of capital expenditures and capitalized leasing commissions necessary to maintain the operating performance of our assets, all of which have real economic effect and could materially impact the financial performance of our assets, the utility of NOI as a measure of the operating performance of our assets is limited. NOI presented by us may not be comparable to NOI reported by other REITs that define these measures differently. We believe that to facilitate a clear understanding of our operating results, NOI should be examined in conjunction with net income (loss) attributable to common shareholders as presented in our financial statements. NOI should not be considered as an alternative to net income (loss) attributable to common shareholders as an indication of our performance or to cash flows as a measure of liquidity or our ability to make distributions.

We also provide certain information on a "same store" basis. Information provided on a same store basis includes the results of properties that are owned, operated and in service for the entirety of both periods being compared except for properties for which significant redevelopment, renovation or repositioning occurred during either of the periods being compared. While there is judgment surrounding changes in designations, a property is removed from the same store pool when the property is considered to be under construction because it is undergoing significant redevelopment or renovation pursuant to a formal plan or is being

repositioned in the market and such renovation or repositioning is expected to have a significant impact on property operating income. A development property or property under construction is moved to the same store pool once a substantial portion of the growth expected from the development or redevelopment is reflected in both the current and comparable prior year period. Acquisitions are moved into the same store pool once we have owned the property for the entirety of the comparable periods and the property is not under significant development or redevelopment.

For the year ended December 31, 2018, all of the JBG Assets and two Vornado Included Assets (The Bartlett and 1800 South Bell Street) were not included in the same store comparison as they were not in service during portions of the periods being compared. Additionally, the Bowen Building, Executive Tower, the Investment Building and 1233 20th Street were excluded because these assets were sold during the period.

Same store NOI decreased by \$2.7 million, or 1.1%, for the year ended December 31, 2018 as compared to the year ended December 31, 2017. The decrease in same store NOI for the year ended December 31, 2018, was largely attributable to rental abatements, increased ground rent expense at Courthouse Plaza 1 and 2, and anticipated tenant move-outs.

The following table reflects the reconciliation of net income (loss) attributable to common shareholders to NOI and same store NOI for the periods presented:

	Year Ended December 31,	
	2018	2017
	(In thousands)	
Net income (loss) attributable to common shareholders	\$ 39,924	\$ (71,753)
Add:		
Depreciation and amortization expense	211,436	161,659
General and administrative expense:		
Corporate and other	33,728	39,350
Third-party real estate services	89,826	51,919
Share-based compensation related to Formation Transaction and special equity awards	36,030	29,251
Transaction and other costs	27,706	127,739
Interest expense	74,447	58,141
Loss on extinguishment of debt	5,153	701
Reduction of gain (gain) on bargain purchase	7,606	(24,376)
Income tax benefit	(738)	(9,912)
Net (income) loss attributable to redeemable noncontrolling interests	6,710	(7,328)
Less:		
Third-party real estate services, including reimbursements	98,699	63,236
Other income	6,358	5,167
Income (loss) from unconsolidated real estate ventures, net	39,409	(4,143)
Interest and other income, net	15,168	1,788
Gain on sale of real estate	52,183	—
Net loss attributable to noncontrolling interests	21	3
Consolidated NOI	319,990	289,340
NOI attributable to consolidated JBG Assets ⁽¹⁾	—	24,936
Proportionate NOI attributable to unconsolidated JBG Assets ⁽¹⁾	—	8,688
Proportionate NOI attributable to unconsolidated real estate ventures	36,824	21,530
Non-cash rent adjustments ⁽²⁾	(10,349)	(6,715)
Other adjustments ⁽³⁾	19,638	11,587
Total adjustments	46,113	60,026
NOI	366,103	349,366
Non-same store NOI ⁽⁴⁾	115,801	96,342
Same store NOI ⁽⁵⁾	\$ 250,302	\$ 253,024
Growth in same store NOI	(1.1)%	
Number of properties in same store pool	32	

⁽¹⁾ Includes financial information for the JBG Assets as if the Combination had been completed as of the beginning of the period presented.

⁽²⁾ Adjustment to exclude straight-line rent, above/below market lease amortization and lease incentive amortization.

⁽³⁾ Adjustment to include other income and payments associated with assumed lease liabilities related to operating properties, and exclude incidental income generated by development assets and commercial lease termination revenue. Includes property management fees of approximately \$16.6 million and \$7.8 million for the years ended December 31, 2018 and 2017.

⁽⁴⁾ Includes the results for properties that were not owned, operated and in service for the entirety of both periods being compared and properties for which significant redevelopment, renovation or repositioning occurred during either of the periods being compared.

⁽⁵⁾ Includes the results of the properties that are owned, operated and in service for the entirety of both periods being compared except for properties for which significant redevelopment, renovation or repositioning occurred during either of the periods being compared.

Reportable Segments

We review operating and financial data for each property on an individual basis; therefore, each of our individual properties is a separate operating segment. Our reportable segments are aligned with our method of internal reporting and the way our Chief

Executive Officer, who is also our Chief Operating Decision Maker ("CODM"), makes key operating decisions, evaluates financial results, allocates resources and manages our business. Accordingly, we aggregate our operating segments into three reportable segments (commercial, multifamily and third-party asset management and real estate services) based on the economic characteristics and nature of our assets and services. To conform to the current period presentation, we have reclassified the prior period segment financial data for certain properties that had been classified as part of other to the commercial and multifamily segments and the elimination of intersegment activity has been included as part of other. The commercial segment was previously referred to as the office segment.

The CODM measures and evaluates the performance of our operating segments, with the exception of the third-party asset management and real estate services business, based on the NOI of properties within each segment. NOI includes property rental revenues and tenant reimbursements and deducts property operating expenses and real estate taxes.

With respect to the third-party asset management and real estate services business, the CODM reviews revenues streams generated by this segment ("Third-party real estate services, including reimbursements"), as well as the expenses attributable to the segment ("General and administrative: third-party real estate services"), which are disclosed separately in the statements of operations and discussed in the preceding pages under "Results of Operations." The following presents a reconciliation of revenue from our third-party asset management and real estate services business, excluding reimbursements and service revenue, to "Third-party real estate services revenue, including reimbursements":

	Year Ended December 31,		
	2018	2017	2016
	(In thousands)		
Property management fees	\$ 24,831	\$ 16,022	\$ 10,643
Asset management fees	14,910	10,083	—
Leasing fees	6,658	3,639	4,635
Development fees	7,592	3,653	396
Construction management fees	2,892	2,220	1,182
Other service revenue	2,801	712	223
Third-party real estate services revenue, excluding reimbursements and service revenue	59,684	36,329	17,079
Reimbursements and service revenue	39,015	26,907	16,803
Third-party real estate services revenue, including reimbursements	\$ 98,699	\$ 63,236	\$ 33,882

Increases in property management fees, asset management fees and reimbursements and service revenue are primarily due to the real estate services business acquired in the Combination.

Consistent with internal reporting presented to our CODM and our definition of NOI, the third-party asset management and real estate services operating results are excluded from the NOI data below.

Rental revenue is calculated as property rentals plus tenant reimbursements. Rental expense is calculated as property operating expenses plus real estate taxes. NOI is calculated as rental revenue less rental expense. See Note 18 to the financial statements for the reconciliation of net income (loss) attributable to common shareholders to consolidated NOI for each of the three years in the period ended December 31, 2018.

Year Ended December 31,		
2018	2017	2016

(In thousands)

Rental revenue:			
Commercial	\$ 430,042	\$ 383,897	\$ 356,494
Multifamily	109,357	91,569	66,855
Other ⁽¹⁾	(274)	(856)	15,907
Total rental revenue	<u>539,125</u>	<u>474,610</u>	<u>439,256</u>
Rental expense:			
Commercial	171,612	148,247	137,263
Multifamily	45,782	35,653	24,231
Other ⁽¹⁾	1,741	1,370	(3,406)
Total rental expense	<u>219,135</u>	<u>185,270</u>	<u>158,088</u>
Consolidated NOI:			
Commercial	258,430	235,650	219,231
Multifamily	63,575	55,916	42,624
Other ⁽¹⁾	(2,015)	(2,226)	19,313
Consolidated NOI	<u>\$ 319,990</u>	<u>\$ 289,340</u>	<u>\$ 281,168</u>

⁽¹⁾ Includes future development assets, corporate entities and the elimination of intersegment activity.

Comparison of the Year Ended December 31, 2018 to 2017

Commercial: Rental revenue increased by \$46.1 million, or 12.0%, to \$430.0 million in 2018 from \$383.9 million in 2017. Consolidated NOI increased by \$22.8 million, or 9.7%, to \$258.4 million in 2018 from \$235.7 million in 2017. The increase in rental revenue and consolidated NOI is primarily due to revenue associated with assets acquired in the Combination, including placing CEB Tower at Central Place into service, partially offset by the sale of the Bowen Building, Summit I and II and Executive Tower, a decrease in occupancy at 2345 Crystal Drive and an increase in rent abatements.

Multifamily: Rental revenue increased by \$17.8 million, or 19.4%, to \$109.4 million in 2018 from \$91.6 million in 2017. Consolidated NOI increased by \$7.7 million, or 13.7%, to \$63.6 million in 2018 from \$55.9 million in 2017. The increase in rental revenue and consolidated NOI is primarily due to the assets acquired in the Combination, including placing 1221 Van Street into service, and an increase in occupancy and associated rentals at The Bartlett.

Comparison of the Year Ended December 31, 2017 to 2016

Commercial: Rental revenue increased by \$27.4 million, or 7.7%, to \$383.9 million in 2017 from \$356.5 million in 2016. Consolidated NOI increased by \$16.4 million, or 7.5%, to \$235.7 million in 2017 from \$219.2 million in 2016. The increase in rental revenue and consolidated NOI is primarily due to the Combination and higher rents due to rent commencements at 1215 S. Clark St.

Multifamily: Rental revenue increased by \$24.7 million, or 37.0%, to \$91.6 million in 2017 from \$66.9 million in 2016. Consolidated NOI increased by \$13.3 million, or 31.2%, to \$55.9 million in 2017 from \$42.6 million in 2016. The increase in rental revenue and consolidated NOI is primarily due to the Combination and an increase in occupancy and associated rentals at The Bartlett which was placed into service in the second quarter of 2016.

Liquidity and Capital Resources

Property rental income is our primary source of operating cash flow and is dependent on a number of factors including occupancy levels and rental rates, as well as our tenants' ability to pay rent. In addition, our third-party asset management and real estate services business provides fee-based real estate services to third parties and the JBG Legacy Funds. Our assets provide a relatively consistent level of cash flow that enables us to pay operating expenses, debt service, recurring capital expenditures, dividends to shareholders and distributions to holders of OP Units. Other sources of liquidity to fund cash requirements include proceeds from financings, the issuance and sale of equity securities and asset sales. We anticipate that cash flows from continuing operations and proceeds from financings, recapitalizations and asset sales, together with existing cash balances, will be adequate to fund our

business operations, debt amortization, capital expenditures, dividends to shareholders and distributions to holders of OP Units over the next 12 months.

Financing Activities

The following is a summary of mortgages payable:

	Weighted Average Effective Interest Rate ⁽¹⁾	December 31,	
		2018	2017
(In thousands)			
Variable rate ⁽²⁾	4.30%	\$ 308,918	\$ 498,253
Fixed rate ⁽³⁾	4.09%	1,535,734	1,537,706
Mortgages payable		1,844,652	2,035,959
Unamortized deferred financing costs and premium/ discount, net		(6,271)	(10,267)
Mortgages payable, net		\$ 1,838,381	\$ 2,025,692

⁽¹⁾ Weighted average effective interest rate as of December 31, 2018.

⁽²⁾ Includes variable rate mortgages payable with interest rate cap agreements.

⁽³⁾ Includes variable rate mortgages payable with interest rates fixed by interest rate swap agreements.

As of December 31, 2018, the net carrying value of real estate collateralizing our mortgages payable, excluding assets held for sale, totaled \$2.3 billion. Our mortgage loans contain covenants that limit our ability to incur additional indebtedness on these properties and in certain circumstances, require lender approval of tenant leases and/or yield maintenance upon repayment prior to maturity. Certain of our mortgage loans are recourse to us. As of December 31, 2018, we were not in default under any mortgage loan.

During the year ended December 31, 2018, aggregate borrowings totaled \$118.1 million, of which \$47.5 million relates to the principal balance on a new mortgage loan collateralized by 1730 M Street and the remainder related to construction draws under mortgages payable. We repaid mortgages payable with an aggregate principal balance of \$298.1 million and recognized losses on the extinguishment of debt in conjunction with these repayments of \$5.2 million for the year ended December 31, 2018.

In the Combination, we assumed mortgages payable with an aggregate principal balance of \$768.5 million. In addition, we entered into mortgages payable with an aggregate principal balance of \$79.3 million during the year ended December 31, 2017 with an ability to draw an additional \$143.7 million for construction. During the year ended December 31, 2017, we repaid mortgages payable with an aggregate principal balance of \$250.0 million, which includes mortgages payable totaling \$64.8 million assumed in the Combination. We recognized losses on the extinguishment of debt in conjunction with these repayments of \$701,000 for the year ended December 31, 2017.

As of December 31, 2018 and 2017, we had various interest rate swap and cap agreements with an aggregate notional value of \$1.3 billion and \$1.4 billion on certain of our mortgages payable, which mature on various dates concurrent with the maturity of the related mortgages payable. During the year ended December 31, 2018, we entered into various interest rate swap and cap agreements on certain of our mortgages payable with an aggregate notional value of \$381.3 million. See Note 17 to the financial statements for additional information.

In July 2017, we entered into a \$1.4 billion credit facility, consisting of a \$1.0 billion revolving credit facility maturing in July 2021, with two six-month extension options, a delayed draw \$200.0 million unsecured term loan ("Tranche A-1 Term Loan") maturing in January 2023, and a delayed draw \$200.0 million unsecured term loan ("Tranche A-2 Term Loan") maturing in July 2024. The interest rate for the credit facility varies based on a ratio of our total outstanding indebtedness to a valuation of certain real property and assets and ranges (a) in the case of the revolving credit facility, from LIBOR plus 1.10% to LIBOR plus 1.50%, (b) in the case of the Tranche A-1 Term Loan, from LIBOR plus 1.20% to LIBOR plus 1.70% and (c) in the case of the Tranche A-2 Term Loan, from LIBOR plus 1.55% to LIBOR plus 2.35%. There are various LIBOR options in the credit facility, and we elected the one-month LIBOR option as of December 31, 2018. As of December 31, 2018, we were not in default under our credit facility.

In July 2017, in connection with the Combination, we drew \$115.8 million on the revolving credit facility and \$50.0 million under the Tranche A-1 Term Loan. In connection with the execution of the credit facility, we incurred \$11.2 million in debt issuance costs during the year ended December 31, 2017. In October 2017, we entered into an interest rate swap with a notional value of \$50.0 million effectively to convert the variable interest rate applicable to our Tranche A-1 Term Loan to a fixed interest rate.

In January 2018, we drew \$50.0 million under the Tranche A-1 Term Loan in accordance with the delayed draw provisions of the credit facility, bringing the outstanding borrowings under the term loan facility to \$100.0 million. Concurrent with the draw, we entered into an interest rate swap agreement effectively to convert the variable interest rate to a fixed interest rate. As of December 31, 2018 and 2017, we had interest rate swaps with an aggregate notional value of \$100.0 million and \$50.0 million effectively to convert the variable interest rate applicable to our Tranche A-1 Term Loan to a fixed interest rate, providing weighted average base interest rates under the facility agreement of 2.12% and 1.97% per annum. The interest rate swaps mature in January 2023, concurrent with the maturity of our Tranche A-1 Term Loan.

In July 2018, we drew \$200.0 million under the Tranche A-2 Term Loan, in accordance with the delayed draw provisions of the credit facility.

The following is a summary of amounts outstanding under the credit facility:

	Interest Rate ⁽¹⁾	December 31,	
		2018	2017
		(In thousands)	
Revolving credit facility ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾	3.60%	\$ —	\$ 115,751
Tranche A-1 Term Loan	3.32%	\$ 100,000	\$ 50,000
Tranche A-2 Term Loan	4.05%	200,000	—
Unsecured term loans		300,000	50,000
Unamortized deferred financing costs, net		(2,871)	(3,463)
Unsecured term loans, net		\$ 297,129	\$ 46,537

⁽¹⁾ Interest rate as of December 31, 2018.

⁽²⁾ As of December 31, 2018 and 2017, letters of credit with an aggregate face amount of \$5.7 million were provided under our revolving credit facility.

⁽³⁾ As of December 31, 2018 and 2017, net deferred financing costs related to our revolving credit facility totaling \$4.8 million and \$6.7 million were included in "Other assets, net."

⁽⁴⁾ In May 2018, in connection with the sale of the Bowen Building, we repaid \$115.0 million of the then outstanding balance on our revolving credit facility. See Note 4 to the financial statements for additional information.

⁽⁵⁾ The interest rate for the revolving credit facility excludes a 0.15% facility fee.

In July 2018, we entered into an equity distribution agreement with various financial institutions relating to our "at the market" ("ATM") offering program, through which we may issue up to \$200.0 million of our common shares from time to time. We may use net proceeds from the issuance of common shares under the ATM program for general corporate purposes, which may include paying down our indebtedness and funding our under construction assets and future development opportunities. No issuances occurred under the agreement in 2018.

In July 2018, we commenced 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. We did not issue any common shares under this program in 2018.

Liquidity Requirements

Our principal liquidity needs for the next twelve months and beyond are to fund:

- normal recurring expenses;
- debt service and principal repayment obligations, including balloon payments on maturing debt;
- capital expenditures, including major renovations, tenant improvements and leasing costs;
- development expenditures;
- dividends to shareholders and distributions to holders of OP Units and
- possible acquisitions of properties, either directly or indirectly through the acquisition of equity interests therein.

We expect to satisfy these needs using one or more of the following:

- cash flows from operations;
- distributions from real estate ventures;
- cash and cash equivalent balances;
- issuance and sale of equity securities and
- proceeds from financings, recapitalizations and asset sales.

We anticipate that cash flows from continuing operations and proceeds from financings, recapitalizations and asset sales, together with existing cash balances, will be adequate to fund our business operations, debt amortization, capital expenditures, dividends to shareholders and distributions to holders of OP Units over the next 12 months.

Contractual Obligations and Commitments

Below is a summary of our contractual obligations and commitments as of December 31, 2018:

	Total	2019	2020	2021	2022	2023	Thereafter
Contractual cash obligations (principal and interest):							
							(In thousands)
Debt obligations ⁽¹⁾⁽²⁾	\$ 2,531,692	\$ 279,632	\$ 185,369	\$ 410,373	\$ 392,723	\$ 306,672	\$ 956,923
Operating leases ⁽³⁾	96,304	12,939	12,637	12,300	11,437	8,350	38,641
Capital leases	22,615	1,052	1,073	1,095	1,117	1,139	17,139
Total contractual cash obligations ⁽⁴⁾	<u>\$ 2,650,611</u>	<u>\$ 293,623</u>	<u>\$ 199,079</u>	<u>\$ 423,768</u>	<u>\$ 405,277</u>	<u>\$ 316,161</u>	<u>\$ 1,012,703</u>

⁽¹⁾ One-month LIBOR of 2.50% is applied to loans which are variable (no hedge) or variable with an interest rate cap. Additionally, we assumed no additional borrowings on construction loans.

⁽²⁾ Excludes our proportionate share of unconsolidated real estate venture indebtedness. See additional information in Off-Balance Sheet Arrangements section below.

⁽³⁾ Includes lease assumption liabilities and payments for ground leases during the term utilized for financial reporting purposes.

⁽⁴⁾ Excludes obligations related to construction or development contracts, since payments are only due upon satisfactory performance under the contracts. See Commitments and Contingencies section below for additional information.

As of December 31, 2018, we expect to fund additional capital to certain of our unconsolidated investments totaling approximately \$48.6 million, which we anticipate will be primarily expended over the next two to three years.

In December 2018, our Board of Trustees declared a quarterly dividend of \$0.225 per common share and a special dividend of \$0.10 per common share, both of which were paid in January 2019.

Summary of Cash Flows

The following summary discussion of our cash flows is based on the statements of cash flows and is not meant to be an all-inclusive discussion of the changes in our cash flows:

	Year Ended December 31,		
	2018	2017	2016
			(In thousands)
Net cash provided by operating activities	\$ 188,193	\$ 74,183	\$ 159,541
Net cash provided by (used in) investing activities	66,327	(7,676)	(258,807)
Net cash provided by (used in) financing activities	(193,545)	239,787	51,083

Cash Flows for the Year Ended December 31, 2018

Cash and cash equivalents and restricted cash increased \$61.0 million to \$399.5 million as of December 31, 2018 compared to \$338.6 million as of December 31, 2017. This increase resulted from \$188.2 million of net cash provided by operating activities and \$66.3 million of net cash provided by investing activities, partially offset by \$193.5 million of net cash used in financing activities. Our outstanding debt was \$2.1 billion as of December 31, 2018 compared to \$2.2 billion as of December 31, 2017. The \$57.1 million decrease in outstanding debt is primarily from repayments of mortgages payable and our revolving credit facility, partially offset by draws under the Tranche A-1 and Tranche A-2 Term Loans, and borrowings under new mortgages payable.

Net cash provided by operating activities of \$188.2 million primarily comprised: (i) \$227.7 million of net income (before \$233.2 million of non-cash items and a \$52.2 million gain on sale of real estate) and (ii) \$7.8 million of return on capital from unconsolidated real estate ventures, partially offset by (iii) \$47.3 million of net change in operating assets and liabilities. Non-cash income adjustments of \$233.2 million primarily include depreciation and amortization, share-based compensation expense, (income) loss from unconsolidated real estate ventures, net, deferred rent and reduction of gain on bargain purchase.

Net cash provided by investing activities of \$66.3 million primarily comprised: (i) \$413.1 million of proceeds from sale of real estate, (ii) \$80.3 million of distributions of capital from sales of unconsolidated real estate ventures and (iii) \$14.4 million of distributions of capital from unconsolidated real estate ventures, partially offset by (iv) \$385.9 million of development costs, construction in progress and real estate additions, (v) \$31.2 million of investments in and advances to unconsolidated real estate ventures and (vi) \$23.2 million of real estate acquisitions.

Net cash used in financing activities of \$193.5 million primarily comprised: (i) \$312.9 million of repayment of mortgages payable, (ii) \$150.8 million of repayments of our revolving credit facility, (iii) \$107.4 million of dividends paid to common shareholders and (iv) \$17.4 million of distributions to redeemable noncontrolling interests, partially offset by (v) \$250.0 million of proceeds from borrowings under our unsecured term loans, (vi) \$118.1 million of aggregate proceeds from borrowings under mortgages payable and (vii) \$35.0 million of borrowings under our revolving credit facility.

Cash Flows for the Year Ended December 31, 2017

Cash and cash equivalents and restricted cash increased \$306.3 million to \$338.6 million as of December 31, 2017 compared to \$32.3 million as of December 31, 2016. This increase resulted from \$239.8 million of net cash provided by financing activities and \$74.2 million of net cash provided by operating activities, partially offset by \$7.7 million of net cash used in investing activities. Our outstanding debt was \$2.2 billion as of December 31, 2017, a \$1.0 billion increase from the balance at December 31, 2016 primarily from mortgages payable assumed in the Combination and borrowings under our credit facility.

Net cash provided by operating activities of \$74.2 million primarily comprised: (i) \$88.4 million of net income (before \$191.9 million of non-cash items and \$24.4 million gain on bargain purchase) and (ii) \$2.6 million of return on capital from unconsolidated real estate ventures, partially offset by (iii) \$16.8 million of net change in operating assets and liabilities. Non-cash adjustments of \$191.9 million primarily include depreciation and amortization, share-based compensation expense, deferred rent, deferred income tax benefit, net loss from unconsolidated real estate ventures, bad debt expense and other non-cash items.

Net cash used in investing activities of \$7.7 million primarily comprised: (i) \$210.6 million of development costs, construction in progress and real estate additions, (ii) \$16.3 million of investments in and advances to unconsolidated real estate ventures and (iii) \$8.8 million of acquisition of interests in unconsolidated real estate ventures, net of cash acquired, partially offset by (iv) \$97.4 million of net cash consideration received in connection with the Combination, (v) \$75.0 million of proceeds from the repayment of a receivable by our former parent and (vi) \$50.9 million of repayment of notes receivable.

Net cash provided by financing activities of \$239.8 million primarily comprised: (i) \$366.2 million of proceeds from borrowings under mortgages payable, (ii) \$160.2 million of net contributions from our former parent, (iii) \$115.8 million of proceeds from borrowings under our revolving credit facility and (iv) \$50.0 million of proceeds from borrowings under our unsecured term loan, partially offset by (v) \$272.9 million of repayment of mortgages payable, (vi) \$115.6 million of repayment of borrowings from former parent, (vii) \$26.5 million of dividends paid to common shareholders, (viii) \$19.3 million of debt issuance costs, (ix) \$17.8 million of capital lease payments and (x) \$4.6 million of distributions to redeemable noncontrolling interests.

Off-Balance Sheet Arrangements

Unconsolidated Real Estate Ventures

We consolidate entities in which we have a controlling interest or are the primary beneficiary in a variable interest entity. From time to time, we may have off-balance-sheet unconsolidated real estate ventures and other unconsolidated arrangements with varying structures.

As of December 31, 2018, we have investments in and advances to unconsolidated real estate ventures totaling \$322.9 million. For the majority of these investments, we exercise significant influence over, but do not control these entities and therefore account for these investments using the equity method of accounting. For a more complete description of our real estate ventures, see Note 6 to the financial statements.

From time to time, we (or ventures in which we have an ownership interest) have agreed, and may in the future agree with respect to unconsolidated real estate ventures, to (1) guarantee portions of the principal, interest and other amounts in connection with their borrowings, (2) provide customary environmental indemnifications and nonrecourse carve-outs (e.g., guarantees against fraud, misrepresentation and bankruptcy) in connection with their borrowings and (3) provide guarantees to lenders and other

third parties for the completion of development projects. We customarily have agreements with our outside partners whereby the partners agree to reimburse the real estate venture or us for their share of any payments made under certain of these guarantees. Amounts that may be required to be paid in future periods in relation to budget overruns or operating losses that are also included in some of our guarantees are not estimable. Guarantees (excluding environmental) terminate either upon the satisfaction of specified circumstances or repayment of the underlying debt. At times, we have agreements with our outside partners whereby we agree to reimburse our partner for their share of any payments made by them under certain guarantees. As of December 31, 2018, we had no principal payment guarantees for our unconsolidated real estate ventures.

As of December 31, 2018, we expect to fund additional capital to certain of our unconsolidated investments totaling approximately \$48.6 million, which we anticipate will be primarily expended over the next two to three years.

Reconsideration events could cause us to consolidate these unconsolidated real estate ventures and partnerships in the future or deconsolidate a consolidated entity. We evaluate reconsideration events as we become aware of them. Some triggers to be considered are additional contributions required by each partner and each partners' ability to make those contributions. Under certain of these circumstances, we may purchase our partner's interest. Our unconsolidated real estate ventures are held in entities which appear sufficiently stable to meet their capital requirements; however, if market conditions worsen and our partners are unable to meet their commitments, there is a possibility we may have to consolidate these entities.

Commitments and Contingencies

Insurance

We maintain general liability insurance with limits of \$200.0 million per occurrence and in the aggregate, and property and rental value insurance coverage with limits of \$2.0 billion per occurrence, with sub-limits for certain perils such as floods and earthquakes on each of our properties. We also maintain coverage, through our wholly owned captive insurance subsidiary, for both terrorist acts and for nuclear, biological, chemical or radiological terrorism events with limits of \$2.0 billion per occurrence. These policies are partially reinsured by third-party insurance providers.

We will continue to monitor the state of the insurance market and the scope and costs of coverage for acts of terrorism. We cannot anticipate what coverage will be available on commercially reasonable terms in the future. We are responsible for deductibles and losses in excess of the insurance coverage, which could be material.

Our debt, consisting of mortgage loans secured by our properties, revolving credit facility and unsecured term loans contain customary covenants requiring adequate insurance coverage. Although we believe that we currently have adequate insurance coverage, we may not be able to obtain an equivalent amount of coverage at reasonable costs in the future. If lenders insist on greater coverage than we are able to obtain, it could adversely affect the ability to finance or refinance our properties.

Construction Commitments

As of December 31, 2018, we have construction in progress that will require an additional \$519.4 million to complete (\$440.9 million related to our consolidated entities and \$78.5 million related to our unconsolidated real estate ventures at our share), based on our current plans and estimates, which we anticipate will be primarily expended over the next two to three years. These capital expenditures are generally due as the work is performed, and we expect to finance them with debt proceeds, proceeds from asset recapitalizations and sales, and available cash.

Other

There are various legal actions against us in the ordinary course of business. In our opinion, the outcome of such matters will not have a material adverse effect on our financial condition, results of operations or cash flows.

In connection with the Formation Transaction, we entered into an agreement with Vornado regarding tax matters (the "Tax Matters Agreement") that provides special rules that allocate tax liabilities if the distribution of JBG SMITH shares by Vornado, together with certain related transactions, is not tax-free. Under the Tax Matters Agreement, we may be required to indemnify Vornado against any taxes and related amounts and costs resulting from a violation by us of the Tax Matters Agreement, or from the taking of certain restricted actions by us.

Inflation

Substantially all of our office and retail leases contain provisions designed to mitigate the adverse impact of inflation. These provisions generally increase rental rates or reimbursable expenses during the terms of the lease either at (i) fixed rates, (ii) indexed escalations (based on the Consumer Price Index of other measures) or (iii) the lesser of a fixed rate or an indexed escalation. We may be adversely impacted by inflation on the leases that do not contain indexed escalation provisions or when the increases

provided by the escalation provisions are less than inflation. In addition, most of our office and retail leases require the tenant to pay an allocable share of operating expenses, including common area maintenance costs, real estate taxes and insurance. We believe that inflationary increases may be at least partially offset by the contractual rent increases and expense escalations described above. The majority of our multifamily properties are subject to one-year leases, which provide us with the opportunity to adjust rental rates annually and mitigate the impact of inflation. We do not believe inflation has had a material impact on our historical financial position or results of operations.

Environmental Matters

Under various federal, state and local laws, ordinances and regulations, an owner of real estate is liable for the costs of removal or remediation of certain hazardous or toxic substances on such real estate. These laws often impose such liability without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances. The costs of remediation or removal of such substances may be substantial and the presence of such substances, or the failure to promptly remediate such substances, may adversely affect the owner's ability to sell such real estate or to borrow using such real estate as collateral. In connection with the ownership and operation of our assets, we may be potentially liable for such costs. The operations of current and former tenants at our assets have involved, or may have involved, the use of hazardous materials or generated hazardous wastes. The release of such hazardous materials and wastes could result in us incurring liabilities to remediate any resulting contamination. The presence of contamination or the failure to remediate contamination at our properties may (1) expose us to third-party liability (e.g., for cleanup costs, natural resource damages, bodily injury or property damage), (2) subject our properties to liens in favor of the government for damages and costs the government incurs in connection with the contamination, (3) impose restrictions on the manner in which a property may be used or businesses may be operated, or (4) materially adversely affect our ability to sell, lease or develop the real estate or to borrow using the real estate as collateral. In addition, our assets are exposed to the risk of contamination originating from other sources. While a property owner may not be responsible for remediating contamination that has migrated onsite from an identifiable and viable offsite source, the contaminant's presence can have adverse effects on operations and the redevelopment of our assets. To the extent we send contaminated materials to other locations for treatment or disposal, we may be liable for cleanup of those sites if they become contaminated.

Most of our assets have been subject, at some point, to environmental assessments that are intended to evaluate the environmental condition of the subject and surrounding assets. These environmental assessments generally have included a historical review, a public records review, a visual inspection of the site and surrounding assets, visual or historical evidence of underground storage tanks, and the preparation and issuance of a written report. Soil and/or groundwater subsurface testing is conducted at our assets, when necessary, to further investigate any issues raised by the initial assessment that could reasonably be expected to pose a material concern to the property or result in us incurring material environmental liabilities as a result of redevelopment. They may not, however, have included extensive sampling or subsurface investigations. In each case where the environmental assessments have identified conditions requiring remedial actions required by law, we have initiated appropriate actions. The environmental assessments did not reveal any material environmental contamination that we believe would have a material adverse effect on our overall business, financial condition or results of operations, or that have not been anticipated and remediated during site redevelopment as required by law. Nevertheless, there can be no assurance that the identification of new areas of contamination, changes in the extent or known scope of contamination, the discovery of additional sites or changes in cleanup requirements would not result in significant cost to us. As noted in Note 10 to the financial statements, environmental liabilities total \$17.9 million as of December 31, 2018 and primarily relate to a liability to remediate pre-existing environmental matters at Potomac Yard Land Bay H, which was acquired in December 2018.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We have exposure to fluctuations in interest rates, which are sensitive to many factors that are beyond our control. Our exposure to a change in interest rates is summarized in the table below.

	December 31, 2018			December 31, 2017	
	Balance	Weighted Average Effective Interest Rate	Effect of 1% Change in Base Rates	Balance	Weighted Average Effective Interest Rate
(Dollars in thousands)					
Debt (contractual balances):					
Mortgages payable					
Variable rate ⁽¹⁾	\$ 308,918	4.30%	\$ 3,132	\$ 498,253	3.62%
Fixed rate ⁽²⁾	1,535,734	4.09%	—	1,537,706	4.25%
	<u>\$ 1,844,652</u>		<u>\$ 3,132</u>	<u>\$ 2,035,959</u>	
Credit facility (variable rate):					
Revolving credit facility	\$ —	3.60%	\$ —	\$ 115,751	2.66%
Tranche A-1 Term Loan ⁽³⁾	100,000	3.32%	—	50,000	3.17%
Tranche A-2 Term Loan	200,000	4.05%	2,028	—	—
Pro rata share of debt of unconsolidated entities (contractual balances):					
Variable rate ⁽¹⁾	\$ 146,980	6.19%	\$ 1,490	\$ 158,154	4.40%
Fixed rate ⁽²⁾	152,410	4.44%	—	238,138	3.79%
	<u>\$ 299,390</u>		<u>\$ 1,490</u>	<u>\$ 396,292</u>	

⁽¹⁾ Includes variable rate mortgages payable with interest rate cap agreements.

⁽²⁾ Includes variable rate mortgages payable with interest rates fixed by interest rate swap agreements.

⁽³⁾ As of December 31, 2018 and 2017, the outstanding balance was fixed by interest rate swap agreements.

The fair value of our mortgages payable is estimated by discounting the future contractual cash flows of these instruments using current risk-adjusted rates available to borrowers with similar credit profiles based on market sources. The fair value of our revolving credit facility and unsecured term loans is calculated based on the net present value of payments over the term of the facilities using estimated market rates for similar notes and remaining terms. As of December 31, 2018 and 2017, the estimated fair value of our consolidated debt was \$2.2 billion. These estimates of fair value, which are made at the end of the reporting period, may be different from the amounts that may ultimately be realized upon the disposition of our financial instruments.

Hedging Activities

To manage, or hedge, our exposure to interest rate risk, we follow established risk management policies and procedures, including the use of a variety of derivative financial instruments. We do not enter into derivative financial instruments for speculative purposes.

Derivative Financial Instruments Designated as Cash Flow Hedges

Certain derivative financial instruments, consisting of interest rate swap and cap agreements, are designated as cash flow hedges, and are carried at their estimated fair value on a recurring basis. We assess the effectiveness of our cash flow hedges both at inception and on an ongoing basis. If the hedges are deemed to be effective, the fair value is recorded in accumulated other comprehensive income and is subsequently reclassified into "Interest expense" in the period that the hedged forecasted transactions affect earnings. Our cash flow hedges become less than perfectly effective if the critical terms of the hedging instrument and the forecasted transactions do not perfectly match such as notional amounts, settlement dates, reset dates, calculation period and interest rates. In addition, we evaluate the default risk of the counterparty by monitoring the credit worthiness of the counterparty. While management believes its judgments are reasonable, a change in a derivative's effectiveness as a hedge could materially affect expenses, net income and equity.

As of December 31, 2018 and 2017, we had interest rate swap and cap agreements with an aggregate notional value of \$786.4 million and \$856.9 million, which were designated as cash flow hedges. As of December 31, 2018 and 2017, the fair value of our

interest rate swaps and caps designated as cash flow hedges consisted of assets totaling \$7.9 million and \$1.5 million included in "Other assets, net" in our balance sheets, and liabilities totaling \$1.7 million and \$2.6 million included in "Other liabilities, net" in our balance sheets.

Derivative Financial Instruments Not Designated as Hedges

Certain derivative financial instruments, consisting of interest rate swap and cap agreements, are considered economic hedges, but not designated as accounting hedges, and are carried at their estimated fair value on a recurring basis. Realized and unrealized gains are recorded in "Interest expense" in the statements of operations in the period in which the change occurs. As of December 31, 2018 and 2017, we had various interest rate swap and cap agreements with an aggregate notional value of \$646.4 million and \$563.1 million, which were not designated as cash flow hedges. As of December 31, 2018 and 2017, the fair value of our interest rate swaps and caps not designated as hedges primarily consisted of assets totaling \$2.5 million and \$635,000 included in "Other assets, net" in our balance sheets.

ITEM 8. Financial Statements and Supplementary Data

TABLE OF CONTENTS

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	68
Consolidated Balance Sheets as of December 31, 2018 and 2017	69
Consolidated and Combined Statements of Operations for the years ended December 31, 2018, 2017 and 2016	70
Consolidated and Combined Statements of Comprehensive Income (Loss) for the years ended December 31, 2018, 2017 and 2016	71
Consolidated and Combined Statements of Equity for the years ended December 31, 2018, 2017 and 2016	72
Consolidated and Combined Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016	73
Notes to Consolidated and Combined Financial Statements	75

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Trustees of JBG SMITH Properties

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of JBG SMITH Properties and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, equity, and cash flows, for the year ended December 31, 2018, the related consolidated and combined statements of operations, comprehensive income (loss), equity, and cash flows, for each of the two years in the period ended December 31, 2017, and the related notes and the schedules listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material aspects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with the accounting principles generally accepted in the United States of America.

We have also 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, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

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.

Emphasis of a Matter

As discussed in Note 1 to the consolidated and combined financial statements, the historical financial results reflect charges for certain corporate costs allocated by Vornado Realty Trust. These costs may not be reflective of the actual costs which would have been incurred had the Company operated as an independent, standalone entity separate from Vornado Realty Trust.

/s/ Deloitte & Touche LLP
McLean, Virginia
February 26, 2019

We have served as the Company's auditor since 2016.

JBG SMITH PROPERTIES
Consolidated Balance Sheets
(In thousands, except par value amounts)

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
ASSETS		
Real estate, at cost:		
Land and improvements	\$ 1,371,874	\$ 1,368,294
Buildings and improvements	3,722,930	3,670,268
Construction in progress, including land	697,930	978,942
	<u>5,792,734</u>	<u>6,017,504</u>
Less accumulated depreciation	(1,051,875)	(1,011,330)
Real estate, net	4,740,859	5,006,174
Cash and cash equivalents	260,553	316,676
Restricted cash	138,979	21,881
Tenant and other receivables, net	46,568	46,734
Deferred rent receivable, net	143,473	146,315
Investments in and advances to unconsolidated real estate ventures	322,878	261,811
Other assets, net	264,994	263,923
Assets held for sale	78,981	8,293
TOTAL ASSETS	<u>\$ 5,997,285</u>	<u>\$ 6,071,807</u>
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY		
Liabilities:		
Mortgages payable, net	\$ 1,838,381	\$ 2,025,692
Revolving credit facility	—	115,751
Unsecured term loans, net	297,129	46,537
Accounts payable and accrued expenses	130,960	138,607
Other liabilities, net	181,606	161,277
Liabilities related to assets held for sale	3,717	—
Total liabilities	<u>2,451,793</u>	<u>2,487,864</u>
Commitments and contingencies		
Redeemable noncontrolling interests	558,140	609,129
Shareholders' equity:		
Preferred shares, \$0.01 par value - 200,000 shares authorized, none issued	—	—
Common shares, \$0.01 par value - 500,000 shares authorized; 120,937 and 117,955 shares issued and outstanding as of December 31, 2018 and 2017	1,210	1,180
Additional paid-in capital	3,155,256	3,063,625
Accumulated deficit	(176,018)	(95,809)
Accumulated other comprehensive income	6,700	1,612
Total shareholders' equity of JBG SMITH Properties	<u>2,987,148</u>	<u>2,970,608</u>
Noncontrolling interests in consolidated subsidiaries	204	4,206
Total equity	<u>2,987,352</u>	<u>2,974,814</u>
TOTAL LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY	<u>\$ 5,997,285</u>	<u>\$ 6,071,807</u>

See accompanying notes to the consolidated and combined financial statements.

JBG SMITH PROPERTIES
Consolidated and Combined Statements of Operations
(In thousands, except per share data)

	Year Ended December 31,		
	2018	2017	2016
REVENUE			
Property rentals	\$ 499,835	\$ 436,625	\$ 401,595
Tenant reimbursements	39,290	37,985	37,661
Third-party real estate services, including reimbursements	98,699	63,236	33,882
Other income	6,358	5,167	5,381
Total revenue	<u>644,182</u>	<u>543,013</u>	<u>478,519</u>
EXPENSES			
Depreciation and amortization	211,436	161,659	133,343
Property operating	148,081	118,836	100,304
Real estate taxes	71,054	66,434	57,784
General and administrative:			
Corporate and other	33,728	39,350	48,753
Third-party real estate services	89,826	51,919	19,066
Share-based compensation related to Formation Transaction and special equity awards	36,030	29,251	—
Transaction and other costs	27,706	127,739	6,476
Total expenses	<u>617,861</u>	<u>595,188</u>	<u>365,726</u>
OTHER INCOME (EXPENSE)			
Income (loss) from unconsolidated real estate ventures, net	39,409	(4,143)	(947)
Interest and other income, net	15,168	1,788	2,992
Interest expense	(74,447)	(58,141)	(51,781)
Gain on sale of real estate	52,183	—	—
Loss on extinguishment of debt	(5,153)	(701)	—
Gain (reduction of gain) on bargain purchase	(7,606)	24,376	—
Total other income (expense)	<u>19,554</u>	<u>(36,821)</u>	<u>(49,736)</u>
INCOME (LOSS) BEFORE INCOME TAX BENEFIT (EXPENSE)	<u>45,875</u>	<u>(88,996)</u>	<u>63,057</u>
Income tax benefit (expense)	738	9,912	(1,083)
NET INCOME (LOSS)	<u>46,613</u>	<u>(79,084)</u>	<u>61,974</u>
Net (income) loss attributable to redeemable noncontrolling interests	(6,710)	7,328	—
Net loss attributable to noncontrolling interests	21	3	—
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS	<u>\$ 39,924</u>	<u>\$ (71,753)</u>	<u>\$ 61,974</u>
EARNINGS (LOSS) PER COMMON SHARE:			
Basic	\$ 0.31	\$ (0.70)	\$ 0.62
Diluted	\$ 0.31	\$ (0.70)	\$ 0.62
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:			
Basic	119,176	105,359	100,571
Diluted	119,176	105,359	100,571

See accompanying notes to the consolidated and combined financial statements.

JBG SMITH PROPERTIES
Consolidated and Combined Statements of Comprehensive Income (Loss)
(In thousands)

	Year Ended December 31,		
	2018	2017	2016
NET INCOME (LOSS)	\$ 46,613	\$ (79,084)	\$ 61,974
OTHER COMPREHENSIVE INCOME:			
Change in fair value of derivative financial instruments	5,382	1,438	—
Reclassification of net loss on derivative financial instruments from accumulated other comprehensive income into interest expense	1,090	399	—
Other comprehensive income	6,472	1,837	—
COMPREHENSIVE INCOME (LOSS)	53,085	(77,247)	61,974
Net (income) loss attributable to redeemable noncontrolling interests	(6,710)	7,328	—
Other comprehensive income attributable to redeemable noncontrolling interests	(1,384)	(225)	—
Net loss attributable to noncontrolling interests	21	3	—
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO JBG SMITH PROPERTIES	<u>\$ 45,012</u>	<u>\$ (70,141)</u>	<u>\$ 61,974</u>

See accompanying notes to the consolidated and combined financial statements.

JBG SMITH PROPERTIES
Consolidated and Combined Statements of Equity
(In thousands)

	Common Shares		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Former Parent Equity	Noncontrolling Interests in Consolidated Subsidiaries	Total Equity
	Shares	Amount						
BALANCE AT JANUARY 1, 2016						\$ 2,058,976	\$ 515	\$ 2,059,491
Net income attributable to former parent						61,974	—	61,974
Deferred compensation shares and options, net						4,502	—	4,502
Distributions to former parent, net						(3,763)	(220)	(3,983)
BALANCE AS OF DECEMBER 31, 2016						2,121,689	295	2,121,984
Net loss attributable to common shareholders and noncontrolling interests	—	\$ —	\$ —	\$ (42,729)	\$ —	(29,024)	(3)	(71,756)
Deferred compensation shares and options, net	—	—	—	—	—	1,526	—	1,526
Contributions from former parent, net	—	—	—	—	—	333,020	—	333,020
Issuance of common limited partnership units at the Separation	—	—	—	—	—	(96,632)	—	(96,632)
Issuance of common shares at the Separation	94,736	947	2,329,632	—	—	(2,330,579)	—	—
Issuance of common shares in connection with the Combination	23,219	233	864,685	—	—	—	—	864,918
Noncontrolling interests acquired in connection with the Combination	—	—	—	—	—	—	3,586	3,586
Dividends declared on common shares (\$0.45 per common share)	—	—	—	(53,080)	—	—	—	(53,080)
Distributions to noncontrolling interests	—	—	—	—	—	—	(171)	(171)
Contributions from noncontrolling interests	—	—	—	—	—	—	499	499
Redeemable noncontrolling interest redemption value adjustment and other comprehensive income allocation	—	—	(130,692)	—	(225)	—	—	(130,917)
Other comprehensive income	—	—	—	—	1,837	—	—	1,837
BALANCE AS OF DECEMBER 31, 2017	117,955	1,180	3,063,625	(95,809)	1,612	—	4,206	2,974,814
Net income (loss) attributable to common shareholders and noncontrolling interests	—	—	—	39,924	—	—	(21)	39,903
Conversion of common limited partnership units to common shares	2,962	30	109,092	—	—	—	—	109,122
Common shares issued pursuant to Employee Share Purchase Plan	20	—	741	—	—	—	—	741
Dividends declared on common shares (\$1.00 per common share)	—	—	—	(120,133)	—	—	—	(120,133)
Distributions to noncontrolling interests	—	—	—	—	—	—	(347)	(347)
Contributions from noncontrolling interests	—	—	—	—	—	—	250	250
Redeemable noncontrolling interests redemption value adjustment and other comprehensive income allocation	—	—	(16,172)	—	(1,384)	—	—	(17,556)
Acquisition of consolidated real estate venture	—	—	(1,666)	—	—	—	(3,884)	(5,550)
Other comprehensive income	—	—	—	—	6,472	—	—	6,472
Other	—	—	(364)	—	—	—	—	(364)
BALANCE AS OF DECEMBER 31, 2018	120,937	\$ 1,210	\$ 3,155,256	\$ (176,018)	\$ 6,700	\$ —	\$ 204	\$ 2,987,352

See accompanying notes to the consolidated and combined financial statements.

JBG SMITH PROPERTIES
Consolidated and Combined Statements of Cash Flows
(In thousands)

	Year Ended December 31,		
	2018	2017	2016
OPERATING ACTIVITIES:			
Net income (loss)	\$ 46,613	\$ (79,084)	\$ 61,974
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Share-based compensation expense	52,675	33,693	4,502
Depreciation and amortization, including amortization of debt issuance costs	215,659	164,580	135,072
Deferred rent	(14,056)	(10,388)	(15,551)
(Income) loss from unconsolidated real estate ventures, net	(39,409)	4,143	947
Amortization of above- and below-market lease intangibles, net	(220)	(862)	(1,353)
Amortization of lease incentives	3,406	4,023	3,592
Return on capital from unconsolidated real estate ventures	7,827	2,563	1,520
Reduction of gain (gain) on bargain purchase	7,606	(24,376)	—
Loss on extinguishment of debt	4,536	701	—
Gain on sale of real estate	(52,183)	—	—
Unrealized gain on interest rate swaps and caps	(926)	(1,348)	—
Bad debt expense	3,298	3,807	751
Other non-cash items	1,388	3,955	6,236
Deferred tax benefit	(718)	(10,408)	—
Changes in operating assets and liabilities:			
Tenant and other receivables	(5,582)	(2,098)	(3,693)
Other assets, net	(16,600)	(23,481)	(16,614)
Accounts payable and accrued expenses	(5,984)	16,160	7,667
Other liabilities, net	(19,137)	(7,397)	(25,509)
Net cash provided by operating activities	<u>188,193</u>	<u>74,183</u>	<u>159,541</u>
INVESTING ACTIVITIES:			
Development costs, construction in progress and real estate additions	(385,943)	(210,593)	(237,814)
Acquisition of real estate	(23,246)	—	—
Cash and restricted cash received in connection with the Combination, net	—	97,416	—
Proceeds from sale of real estate	413,077	—	—
Acquisition of interests in unconsolidated real estate ventures, net of cash acquired	(386)	(8,834)	—
Distributions of capital from unconsolidated real estate ventures	14,408	6,929	—
Distributions of capital from sales of unconsolidated real estate ventures	80,279	—	—
Investments in and advances to unconsolidated real estate ventures	(31,197)	(16,321)	(23,027)
Repayment of notes receivable	—	50,934	—
Other investments	(665)	(2,207)	(1,966)
Proceeds from repayment of receivable from former parent	—	75,000	4,000
Net cash provided by (used in) investing activities	<u>66,327</u>	<u>(7,676)</u>	<u>(258,807)</u>
FINANCING ACTIVITIES:			
Contributions from (distributions to) former parent, net	—	160,203	(3,763)
Acquisition of consolidated real estate venture	(5,550)	—	—
Repayment of borrowings from former parent	—	(115,630)	—
Proceeds from borrowings from former parent	—	4,000	79,500
Capital lease payments	(114)	(17,827)	—
Borrowings under mortgages payable	118,141	366,239	—
Borrowings under revolving credit facility	35,000	115,751	—
Borrowings under unsecured term loans	250,000	50,000	—
Repayments of mortgages payable	(312,894)	(272,905)	(24,364)
Repayments of revolving credit facility	(150,751)	—	—
Debt issuance costs	(3,114)	(19,287)	(70)
Proceeds from common stock issued pursuant to Employee Share Purchase Plan	597	—	—
Dividends paid to common shareholders	(107,372)	(26,540)	—
Distributions to redeemable noncontrolling interests	(17,398)	(4,556)	—
Contributions from noncontrolling interests	250	357	—
Distributions to noncontrolling interests	(340)	(18)	(220)
Net cash provided by (used in) financing activities	<u>(193,545)</u>	<u>239,787</u>	<u>51,083</u>
Net increase (decrease) in cash and cash equivalents and restricted cash	60,975	306,294	(48,183)
Cash and cash equivalents and restricted cash as of the beginning of the year	338,557	32,263	80,446
Cash and cash equivalents and restricted cash as of the end of the year	<u>\$ 399,532</u>	<u>\$ 338,557</u>	<u>\$ 32,263</u>

JBG SMITH PROPERTIES
Consolidated and Combined Statements of Cash Flows
(In thousands)

	Year Ended December 31,		
	2018	2017	2016
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH			
AS OF END OF THE PERIOD:			
Cash and cash equivalents	\$ 260,553	\$ 316,676	\$ 29,000
Restricted cash	138,979	21,881	3,263
Cash and cash equivalents and restricted cash	<u>\$ 399,532</u>	<u>\$ 338,557</u>	<u>\$ 32,263</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW AND NON-CASH INFORMATION:			
Transfer of mortgage payable to former parent	\$ —	\$ 115,630	\$ 115,022
Cash paid for interest (net of capitalized interest of \$20,804, \$12,727 and \$4,076 in 2018, 2017 and 2016)	64,605	52,388	45,373
Accrued capital expenditures included in accounts payable and accrued expenses	53,073	12,445	8,851
Write-off of fully depreciated assets	52,272	55,998	100,076
Deferred interest on mortgages payable	3,216	3,714	—
Cash receipts from (payments for) income taxes	1,965	(3,396)	(1,165)
Deconsolidation of 1900 N Street	95,923	—	—
Accrued dividends to common shareholders	39,298	26,540	—
Accrued distributions to redeemable noncontrolling interests	5,896	4,557	—
Acquisition of consolidated real estate venture	—	5,420	—
Conversion of common limited partnership units to common shares	109,208	—	—
Non-cash transactions related to the Formation Transaction:			
Issuance of common limited partnership units at the Separation	—	96,632	—
Issuance of common shares at the Separation	—	2,330,579	—
Issuance of common shares in connection with the Combination	—	864,918	—
Issuance of common limited partnership units in connection with the Combination	—	359,967	—
Contribution from former parent in connection with the Separation	—	172,817	—

See accompanying notes to the consolidated and combined financial statements.

JBG SMITH PROPERTIES
Notes to Consolidated and Combined Financial Statements

1. Organization and Basis of Presentation

Organization

JBG SMITH Properties ("JBG SMITH") was organized by Vornado Realty Trust ("Vornado" or "former parent") as a Maryland real estate investment trust ("REIT") on October 27, 2016 for the purpose of receiving, via the spin-off on July 17, 2017 (the "Separation"), substantially all of the assets and liabilities of Vornado's Washington, D.C. segment, which operated as Vornado / Charles E. Smith, (the "Vornado Included Assets"). On July 18, 2017, JBG SMITH acquired the management business and certain assets and liabilities (the "JBG Assets") of The JBG Companies ("JBG") (the "Combination"). The Separation and the Combination are collectively referred to as the "Formation Transaction." Unless the context otherwise requires, all references to "we," "us," and "our," refer to the Vornado Included Assets (our predecessor and accounting acquirer) for periods prior to the Separation and to JBG SMITH for periods after the Separation. References to "our share" refers to our ownership percentage of consolidated and unconsolidated assets in real estate ventures. Substantially all of our assets are held by, and our operations are conducted through, JBG SMITH Properties LP ("JBG SMITH LP"), our operating partnership.

Prior to the Separation from Vornado, JBG SMITH was a wholly owned subsidiary of Vornado and had no material assets or operations. On July 17, 2017, Vornado distributed 100% of the then outstanding common shares of JBG SMITH on a pro rata basis to the holders of its common shares. Prior to such distribution by Vornado, Vornado Realty L.P. ("VRLP"), Vornado's operating partnership, distributed common limited partnership units ("OP Units") in JBG SMITH LP on a pro rata basis to the holders of VRLP's common limited partnership units, consisting of Vornado and the other common limited partners of VRLP. Following such distribution by VRLP and prior to such distribution by Vornado, Vornado contributed to JBG SMITH all of the OP Units it received in exchange for common shares of JBG SMITH. Each Vornado common shareholder received one JBG SMITH common share for every two Vornado common shares held as of the close of business on July 7, 2017 (the "Record Date"). Vornado and each of the other limited partners of VRLP received one JBG SMITH LP OP Unit for every two common limited partnership units in VRLP held as of the close of business on the Record Date.

In connection with the Separation, JBG SMITH issued 94.7 million common shares and JBG SMITH LP issued 5.8 million OP Units to parties other than JBG SMITH. In connection with the Combination, JBG SMITH issued 23.2 million common shares and JBG SMITH LP issued 13.9 million OP Units to parties other than JBG SMITH. As of the completion of the Formation Transaction there were 118.0 million JBG SMITH common shares outstanding and 19.8 million JBG SMITH LP OP Units outstanding that were owned by parties other than JBG SMITH. As of December 31, 2018, we, as its sole general partner, controlled JBG SMITH LP and owned 87.8% of its OP Units.

Our operations are presented as if the transfer of the Vornado Included Assets had been consummated prior to all historical periods presented in the accompanying consolidated and combined financial statements at the carrying amounts of such assets and liabilities reflected in Vornado's books and records. The assets and liabilities of the JBG Assets and subsequent results of operations and cash flows are reflected in our consolidated and combined financial statements beginning on the date of the Combination.

We own and operate a portfolio of high-quality commercial and multifamily assets, many of which are amenitized with ancillary retail. Our portfolio reflects our longstanding strategy of owning and operating assets within Metro-served submarkets in the Washington, D.C. metropolitan area that have high barriers to entry and key urban amenities, including being within walking distance of a Metro station.

As of December 31, 2018, our Operating Portfolio consists of 62 operating assets comprising 46 commercial assets totaling approximately 12.9 million square feet (11.3 million square feet at our share) and 16 multifamily assets totaling 6,315 units (4,531 units at our share). Additionally, we have (i) nine assets under construction comprising five commercial assets totaling approximately 1.2 million square feet (927,000 square feet at our share) and four multifamily assets totaling 1,476 units (1,298 units at our share); and (ii) 41 future development assets totaling approximately 23.1 million square feet (19.6 million square feet at our share) of estimated potential development density.

Our revenues are derived primarily from leases with commercial and multifamily tenants, including fixed rents and reimbursements from tenants for certain expenses such as real estate taxes, property operating expenses, and repairs and maintenance. In addition, our third-party asset management and real estate services business provides fee-based real estate services to third parties and the legacy funds (the "JBG Legacy Funds") formerly organized by JBG.

As of December 31, 2018, five of our assets in the aggregate generated approximately 27% of our share of annualized rent. Only the U.S. federal government accounted for 10% or more of our rental revenue, which consists of property rentals and tenant reimbursements, as follows:

(Dollars in thousands)	Year Ended December 31,		
	2018	2017	2016
Rental revenue from the U.S. federal government	\$ 94,822	\$ 92,192	\$ 103,864
Percentage of commercial segment rental revenue	22.0%	24.0%	29.1%
Percentage of total rental revenue	17.6%	19.4%	23.6%

Basis of Presentation

The accompanying consolidated and combined financial statements and notes are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). All intercompany transactions and balances have been eliminated.

The accompanying consolidated and combined financial statements include the accounts of JBG SMITH and our wholly owned subsidiaries and those other entities, including JBG SMITH LP, in which we have a controlling financial interest, including where we have been determined to be the primary beneficiary of a variable interest entity ("VIE"). See Note 7 for additional information on our VIEs. The portions of the equity and net income of consolidated subsidiaries that are not attributable to JBG SMITH are presented separately as amounts attributable to noncontrolling interests in our consolidated and combined financial statements.

References to the financial statements refer to our consolidated and combined financial statements as of December 31, 2018 and 2017, and for each of the three years in the period ended December 31, 2018. References to the balance sheets refer to our consolidated balance sheets as of December 31, 2018 and 2017. References to the statements of operations refer to our consolidated and combined statements of operations for each of the three years in the period ended December 31, 2018. References to the statements of cash flows refer to our consolidated and combined statements of cash flows for each of the three years in the period ended December 31, 2018.

Formation Transaction

JBG SMITH and the Vornado Included Assets were under common control of Vornado for all periods prior to the Separation. The transfer of the Vornado Included Assets from Vornado to JBG SMITH was completed prior to the Separation, at net book values (historical carrying amounts) carved out from Vornado's books and records. For purposes of the formation of JBG SMITH, the Vornado Included Assets were designated as the predecessor and the accounting acquirer of the JBG Assets. Consequently, the financial statements of JBG SMITH, as set forth herein, represent a continuation of the financial information of the Vornado Included Assets as the predecessor and accounting acquirer such that the historical financial information included herein as of any date or for any periods on or prior to the completion of the Combination represents the pre-Combination financial information of the Vornado Included Assets. The financial statements reflect the common shares as of the date of the Separation as outstanding for all periods prior to July 17, 2017. The acquisition of the JBG Assets completed subsequently by JBG SMITH was accounted for as a business combination using the acquisition method whereby identifiable assets acquired and liabilities assumed are recorded at acquisition-date fair values and income and cash flows from the operations were consolidated into the financial statements of JBG SMITH commencing July 18, 2017. Consequently, the financial statements for the periods before and after the Formation Transaction are not directly comparable.

The accompanying financial statements as of December 31, 2018 and 2017 and for the year ended December 31, 2018 include our consolidated accounts. The results of operations for the year ended December 31, 2017 reflect the aggregate operations and changes in cash flows and equity on a combined basis for all periods prior to July 17, 2017 and on a consolidated basis for all periods subsequent to July 17, 2017. The results of operations for the year ended December 31, 2016 include the Vornado Included Assets. Therefore, our results of operations, cash flows and financial condition set forth in this report are not necessarily indicative of our future results of operations, cash flows or financial condition as an independent, publicly traded company.

The historical financial results for the Vornado Included Assets reflect charges for certain corporate costs allocated by the former parent, which were based on either actual costs incurred or a proportion of costs estimated to be applicable, to the Vornado Included Assets based on an analysis of key metrics, including total revenues. Such costs do not necessarily reflect what the actual costs would have been if JBG SMITH had been operating as a separate standalone public company. See Note 20 for additional information.

Reclassification:

To conform to the current year presentation, \$7.8 million of expenses incurred in the operation and management of our properties that were previously included in "General and administrative expenses: corporate and other" for the year ended December 31, 2017 have been reclassified to "Property operating expenses". This reclassification relates to the portion of the year ended December 31, 2017 subsequent to the Formation Transaction on July 18, 2017, as general and administrative expenses incurred prior to the Formation Transaction reflect costs allocated by the former parent.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant of these estimates include: (i) the underlying cash flows used to establish the fair values recorded in connection with the Combination and used in assessing impairment and (ii) the determination of useful lives for tangible and intangible assets. Actual results could differ from these estimates.

Business Combinations

We account for business combinations, including the acquisition of real estate, using the acquisition method pursuant to which we recognize and measure the identifiable assets acquired, liabilities assumed, and any noncontrolling interests in the acquiree at their acquisition date fair values. Accordingly, we estimate the fair values of acquired tangible assets (consisting of real estate, cash and cash equivalents, tenant and other receivables, investments in unconsolidated real estate ventures and other assets, as applicable), identified intangible assets and liabilities (consisting of the value of in-place leases, above- and below-market leases, options to enter into ground leases and management contracts, as applicable), assumed debt and other liabilities, and noncontrolling interests, as applicable, based on our evaluation of information and estimates available at that date. Based on these estimates, we allocate the purchase price to the identified assets acquired and liabilities assumed. Any excess of the purchase price over the estimated fair value of the net assets acquired is recorded as goodwill. Any excess of the fair value of assets acquired over the purchase price is recorded as a gain on bargain purchase. If, up to one year from the acquisition date, information regarding the fair value of the net assets acquired and liabilities assumed is received and estimates are refined, appropriate adjustments are made on a prospective basis to the purchase price allocation, which may include adjustments to identified assets, assumed liabilities, and goodwill or the gain on bargain purchase, as applicable. The results of operations of acquisitions are prospectively included in our financial statements beginning with the date of the acquisition. Transaction costs related to business combinations are expensed as incurred and included in "Transaction and other costs" in our statements of operations.

The fair values of buildings are determined using the "as-if vacant" approach whereby we use discounted income or cash flow models with inputs and assumptions that we believe are consistent with current market conditions for similar assets. The most significant assumptions in determining the allocation of the purchase price to buildings are the exit capitalization rate, discount rate, estimated market rents and hypothetical expected lease-up periods. We assess fair value of land based on market comparisons and development projects using an income approach of cost plus a margin.

The fair values of identified intangible assets are determined based on the following:

- The value allocable to the above- or below-market component of an acquired in-place lease is determined based upon the present value (using a discount rate which reflects the risks associated with the acquired leases) of the difference between (i) the contractual amounts to be received pursuant to the lease over its remaining term and (ii) management's estimate of the amounts that would be received using market rates over the remaining term of the lease. Amounts allocated to above-market leases are recorded as "Identified intangible assets" in "Other assets, net" in the balance sheets, and amounts allocated to below-market leases are recorded as "Lease intangible liabilities" in "Other liabilities, net" in the balance sheets. These intangibles are amortized to "Property rentals" in our statements of operations over the remaining terms of the respective leases.
- Factors considered in determining the value allocable to in-place leases during hypothetical lease-up periods related to space that is leased at the time of acquisition include (i) lost rent and operating cost recoveries during the hypothetical lease-up period and (ii) theoretical leasing commissions required to execute similar leases. These intangible assets are recorded as "Identified intangible assets" in "Other assets, net" in the balance sheets and are amortized to "Depreciation and amortization expenses" in our statements of operations over the remaining term of the existing lease.

- The fair value of the in-place property management, leasing, asset management, and development and construction management contracts is based on revenue and expense projections over the estimated life of each contract discounted using a market discount rate. These management contract intangibles are amortized to "Depreciation and amortization expenses" in our statements of operations over the weighted average life of the management contracts.

The fair value of investments in unconsolidated real estate ventures and related noncontrolling interests is based on the estimated fair values of the identified assets acquired and liabilities assumed of each venture, including future expected cash flows from promote interests.

The fair value of the mortgages payable assumed is determined using current market interest rates for comparable debt financings. The fair values of the interest rate swaps and caps are based on the estimated amounts we would receive or pay to terminate the contract at the acquisition date and are determined using interest rate pricing models and observable inputs. The carrying value of cash, restricted cash, working capital balances, leasehold improvements and equipment, and other assets acquired and liabilities assumed approximates fair value.

Real Estate

Real estate is carried at cost, net of accumulated depreciation and amortization. Maintenance and repairs are expensed as incurred and are included in "Property operating expenses" in our statements of operations. As real estate is undergoing redevelopment activities, all property operating expenses directly associated with and attributable to the redevelopment, including interest expense, are capitalized to the extent that we believe such costs are recoverable through the value of the property. The capitalization period ends when redevelopment activities are substantially complete. General and administrative costs are expensed as incurred. Depreciation requires an estimate of the useful life of each property and improvement as well as an allocation of the costs associated with a property to its various components. Depreciation is recognized on a straight-line basis over estimated useful lives, which range from three to 40 years. Tenant improvements are amortized on a straight-line basis over the lives of the related leases, which approximate the useful lives of the tenant improvements. When assets are sold or retired, their costs and related accumulated depreciation are removed from the accounts with the resulting gains or losses reflected in net income or loss for the period in "Depreciation and amortization expense."

Construction in progress, including land, is carried at cost, and no depreciation is recorded. Real estate undergoing significant renovations and improvements is considered to be under development. All direct and indirect costs related to development activities are capitalized into "Construction in progress, including land" on our balance sheets, except for certain demolition costs, which are expensed as incurred. Direct development costs incurred include: pre-development expenditures directly related to a specific project, development and construction costs, interest, insurance and real estate taxes. Indirect development costs include: employee salaries and benefits, travel and other related costs that are directly associated with the development. Our method of calculating capitalized interest expense is based upon applying our weighted average borrowing rate to the actual accumulated expenditures if the property does not have property specific debt. If the property is encumbered by specific debt, we will capitalize both the interest incurred applicable to that debt and additional interest expense using our weighted average borrowing rate for any accumulated expenditures in excess of the principal balance of the debt encumbering the property. The capitalization of such expenses ceases when the real estate is ready for its intended use, but no later than one-year from substantial completion of major construction activity. If we determine that a construction project is no longer viable, all capitalized pre-development project costs are immediately expensed.

Our assets and related intangible assets are individually reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An impairment exists when the carrying amount of an asset exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Estimates of future cash flows are based on our current plans, intended holding periods and available market information at the time the analyses are prepared. An impairment loss is recognized if the carrying amount of the asset is not recoverable and is measured based on the excess of the property's carrying amount over its estimated fair value. If our estimates of future cash flows, anticipated holding periods, or fair values change, based on market conditions or otherwise, our evaluation of impairment charges may be different and such differences could be material to our financial statements. Estimates of future cash flows are subjective and are based, in part, on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments with a purchase date life to maturity of three months or less and are carried at cost, which approximates fair value, due to their short-term maturities.

Restricted Cash

Restricted cash consists primarily of proceeds from property dispositions held in escrow, security deposits held on behalf of our tenants and cash escrowed under loan agreements for debt service, real estate taxes, property insurance and capital improvements.

Allowance for Doubtful Accounts

We periodically evaluate the collectability of amounts due from tenants, including the receivable arising from deferred rent receivable, and maintain an allowance for doubtful accounts for the estimated losses resulting from the inability of tenants to make required payments under lease agreements. We exercise judgment in establishing these allowances and consider payment history and current credit status in developing these estimates.

Investments in and Advances to Real Estate Ventures

We analyze our real estate ventures to determine whether the entities should be consolidated. If it is determined that these investments do not require consolidation because the entities are not VIEs in accordance with the Consolidation Topic of the Financial Accounting Standards Board ("FASB"), Accounting Standards Codification ("ASC"), we are not considered the primary beneficiary of the entities determined to be VIEs, we do not have voting control, and/or the limited partners (or non-managing members) have substantive participatory rights, then the selection of the accounting method used to account for our investments in unconsolidated real estate ventures is generally determined by our voting interests and the degree of influence we have over the entity. Management uses its judgment when determining if we are the primary beneficiary of, or have a controlling financial interest in, an entity in which we have a variable interest. Factors considered in determining whether we have the power to direct the activities that most significantly impact the entity's economic performance include risk and reward sharing, experience and financial condition of the other partners, voting rights, involvement in day-to-day capital and operating decisions and the extent of our involvement in the entity.

We use the equity method of accounting for investments in unconsolidated real estate ventures when we own 20% or more of the voting interests and have significant influence but do not have a controlling financial interest, or if we own less than 20% of the voting interests but have determined that we have significant influence. Under the equity method, we record our investments in and advances to these entities in our balance sheets, and our proportionate share of earnings or losses earned by the real estate venture is recognized in "Income (loss) from unconsolidated real estate ventures, net" in the accompanying statements of operations. We earn revenues from the management services we provide to unconsolidated entities. These fees are determined in accordance with the terms specific to each arrangement and may include property and asset management fees or transactional fees for leasing, acquisition, development and construction, financing, and legal services provided. We account for this revenue gross of our ownership interest in each respective real estate venture and recognize such revenue in "Third-party real estate services, including reimbursements" in our statements of operations. Our proportionate share of related expenses is recognized in "Income (loss) from unconsolidated real estate ventures, net" in our statements of operations. We may also earn incremental promote distributions if certain financial return benchmarks are achieved upon ultimate disposition of the underlying properties. Management fees are recognized when earned, and promote fees are recognized when certain earnings events have occurred, and the amount is determinable and collectible. Any promote fees are reflected in "Income (loss) from unconsolidated real estate ventures, net" in our statements of operations.

With regard to distributions from unconsolidated real estate ventures, we use the information that is available to us to determine the nature of the underlying activity that generated the distributions. Using the nature of distribution approach, cash flows generated from the operations of an unconsolidated real estate venture are classified as a return on investment (cash inflow from operating activities) and cash flows that from property sales, debt refinancing or sales of our investments are classified as a return of investment (cash inflow from investing activities).

On a periodic basis, we evaluate our investments in unconsolidated entities for impairment. We assess whether there are any indicators, including underlying property operating performance and general market conditions, that the value of our investments in unconsolidated real estate ventures may be impaired. An investment in a real estate venture is considered impaired if we determine that its fair value is less than the net carrying value of the investment in that real estate venture on an other-than-temporary basis. Cash flow projections for the investments consider property level factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other factors. We consider various qualitative factors to determine if a decrease in the value of our investment is other-than-temporary. These factors include age of the venture, our intent and ability to retain our investment in the entity, financial condition and long-term prospects of the entity and relationships with our partners and banks. If we believe that the decline in the fair value of the investment is temporary, no impairment charge is recorded. If our analysis indicates that there is an other-than temporary impairment related to the investment in a particular real estate venture, the carrying value of the venture will be adjusted to an amount that reflects the estimated fair value of the investment.

Intangibles

Intangible assets consist of in-place leases, below-market ground rent obligations, above-market real estate leases and options to enter into ground leases that were recorded in connection with the acquisition of properties. Intangible assets also include management and leasing contracts acquired in the Combination. Intangible liabilities consist of above-market ground rent obligations and below-market real estate leases that are also recorded in connection with the acquisition of properties. Both intangible assets and liabilities are amortized and accreted using the straight-line method over their applicable remaining useful life. When a lease or contract is terminated early, any remaining unamortized or unaccreted balances are charged to earnings. The useful lives of intangible assets are evaluated each reporting period with any changes in estimated useful lives being accounted for over the revised remaining useful life.

Assets Held for Sale

Assets, primarily consisting of real estate, are classified as held for sale when all the necessary criteria are met. The criteria include (i) management, having the authority to approve action, commits to a plan to sell the property in its present condition, (ii) the sale of the property is at a price reasonable in relation to its current fair value and (iii) the sale is probable and expected to be completed within one year. Real estate held for sale is carried at the lower of carrying amounts or estimated fair value less disposal costs. Depreciation and amortization is not recognized on real estate classified as held for sale.

Deferred Costs

Deferred financing costs consist of loan issuance costs directly related to financing transactions that are deferred and amortized over the term of the related loan as a component of interest expense. Unamortized deferred financing costs related to our mortgages payable and unsecured term loan are presented as a direct deduction from the carrying amounts of the related debt instruments, while such costs related to our revolving credit facility are included in other assets.

Direct salaries, third-party fees and other costs incurred by us to originate a lease are capitalized in "Other assets, net" in the balance sheets and are amortized against the respective leases using the straight-line method over the term of the related leases.

Noncontrolling Interests

We identify our noncontrolling interests separately within the equity section on the balance sheets. Amounts of consolidated net income (loss) attributable to redeemable noncontrolling interests and to the noncontrolling interests in consolidated subsidiaries are presented separately in the statements of operations.

Redeemable Noncontrolling Interests - Redeemable noncontrolling interests consists of OP Units issued in conjunction with the Formation Transaction and our venture partner's interest in 965 Florida Avenue. The OP Units became redeemable for our common shares or cash beginning August 1, 2018, subject to certain limitations. Redeemable noncontrolling interests are generally redeemable at the option of the holder and are presented in the mezzanine section between total liabilities and shareholders' equity on the balance sheets. The carrying amount of redeemable noncontrolling interests is adjusted to its redemption value at the end of each reporting period, but no less than its initial carrying value, with such adjustments recognized in "Additional paid-in capital". See Note 12 for additional information.

Noncontrolling Interests - Noncontrolling interests represents the portion of equity that we do not own in entities we consolidate, including interests in consolidated real estate ventures.

Derivative Financial Instruments and Hedge Accounting

Derivative financial instruments are used at times to manage exposure to variable interest rate risk. Derivative financial instruments are recognized as either assets or liabilities and are measured at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation.

Derivative Financial Instruments Designated as Cash Flow Hedges - Certain derivative financial instruments, consisting of interest rate swap and cap agreements, are designated as cash flow hedges, and are carried at their estimated fair value on a recurring basis. We assess the effectiveness of our cash flow hedges both at inception and on an ongoing basis. If the hedges are deemed to be effective, the fair value is recorded in accumulated other comprehensive income and is subsequently reclassified into "Interest expense" in the period that the hedged forecasted transactions affect earnings. Our cash flow hedges become less than perfectly effective if the critical terms of the hedging instrument and the forecasted transactions do not perfectly match such as notional amounts, settlement dates, reset dates, calculation period and interest rates. In addition, we evaluate the default risk of the counterparty by monitoring the creditworthiness of the counterparty.

Derivative instruments and hedging activities require management to make judgments on the nature of its derivatives and their effectiveness as hedges. These judgments determine if the changes in fair value of the derivative instruments are reported in the statements of operations or as a component of comprehensive income and as a component of shareholders' equity on the balance sheets.

Derivative Financial Instruments Not Designated as Hedges - Certain derivative financial instruments, consisting of interest rate swap and cap agreements, are considered economic hedges, but not designated as accounting hedges, and are carried at their estimated fair value on a recurring basis. Realized and unrealized gains are recorded in "Interest expense" in the statements of operations in the period in which the change occurs.

Fair Value of Assets and Liabilities

ASC 820, Fair Value Measurement and Disclosures, defines fair value and establishes a framework for measuring fair value. The objective of fair value is to determine the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). ASC 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels:

Level 1 — quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities;

Level 2 — observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and

Level 3 — unobservable inputs that are used when little or no market data is available.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as consider counterparty credit risk in our assessment of fair value.

Revenue Recognition

Property rentals income includes base rents that each tenant pays in accordance with the terms of its respective lease and is reported on a straight-line basis over the non-cancellable term of the lease, which includes the effects of periodic step-ups in rent and rent abatements under the leases. We commence rental revenue recognition when the tenant takes possession of the leased space or controls the physical use of the leased space and the leased space is substantially ready for its intended use. In circumstances where we provide a tenant improvement allowance for improvements that are owned by the tenant, we recognize the allowance as a reduction of property rentals revenue on a straight-line basis over the term of the lease. Differences between rental income recognized and amounts due under the respective lease agreements are recorded as an increase or decrease to "Deferred rent receivable, net" on our balance sheets. Property rentals also includes the amortization/accretion of acquired above-and below-market leases.

Tenant reimbursements provide for the recovery of all or a portion of the operating expenses and real estate taxes of the respective assets. Tenant reimbursements are accrued in the same periods as the related expenses are incurred.

Third-party real estate services revenue, including reimbursements, is determined in accordance with the terms specific to each arrangement and may include property and asset management fees or transactional fees for leasing, acquisition, development and construction, financing, and legal services provided. These fees are determined in accordance with the terms specific to each arrangement and are recognized as the related services are performed. Development and construction fees earned from providing services to our unconsolidated real estate ventures are recorded on a percentage of completion basis.

Third-Party Real Estate Services Expenses

Third-party real estate services expenses include the costs associated with the management services provided to our unconsolidated real estate ventures and other third parties. We allocate personnel and other overhead costs using the estimates of the time spent performing services for our third-party real estate services and other allocation methodologies.

Transaction and Other Costs

Transaction and other costs consist primarily of fees and expenses incurred in connection with the Formation Transaction, including amounts incurred for transition services provided by our former parent, integration costs and severance costs, as well as pursuit costs related to other completed, potential and pursued transactions. Transaction and other costs are expensed as incurred.

Income Taxes

We have elected to be taxed as a REIT under sections 856-860 of the Internal Revenue Code of 1986, as amended (the "Code"). Under those sections, a REIT which distributes at least 90% of its REIT taxable income as dividends to its shareholders each year and which meets certain other conditions will not be taxed on that portion of its taxable income which is distributed to its shareholders. Prior to the Separation, Vornado operated as a REIT and distributed 100% of its REIT taxable income to its shareholders; accordingly, no provision for federal income taxes has been made in the accompanying financial statements for the periods prior to the Separation. We currently adhere and intend to continue to adhere to these requirements and to maintain our REIT status in future periods.

As a REIT, we can reduce our taxable income by distributing all or a portion of such taxable income to shareholders. Future distributions will be declared and paid at the discretion of the Board of Trustees and will depend upon cash generated by operating activities, our financial condition, capital requirements, annual dividend requirements under the REIT provisions of the Code and such other factors as our Board of Trustees deems relevant.

We also participate in the activities conducted by our subsidiary entities that have elected to be treated as taxable REIT subsidiaries ("TRS") under the Code. As such, we are subject to federal, state, and local taxes on the income from these activities. Income taxes attributable to our TRSs are accounted for under the asset and liability method. Under the asset and liability method, deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future. We provide for a valuation allowance for deferred income tax assets if we believe all or some portion of the deferred tax asset may not be realized. Any increase or decrease in the valuation allowance that results from a change in circumstances that causes a change in the estimated ability to realize the related deferred tax asset is included in deferred tax benefit (expense).

ASC 740-10, Income Taxes, provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. ASC 740-10 requires the evaluation of tax positions taken in the course of preparing our tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold are recorded as a tax expense in the current year.

Earnings (Loss) Per Common Share

Basic earnings (loss) per common share is computed by dividing net income (loss) attributable to common shareholders by the weighted average common shares outstanding during the period. Unvested and vested share-based payment awards that entitle holders to receive non-forfeitable dividends, which include OP Units and long-term incentive partnership units ("LTIP Units"), are considered participating securities. Consequently, we are required to apply the two-class method of computing basic and diluted earnings that would otherwise have been available to common shareholders. Under the two-class method, earnings for the period are allocated between common shareholders and participating securities based on their respective rights to receive dividends. During periods of net loss, losses are allocated only to the extent the participating securities are required to absorb their share of such losses. Diluted earnings per common share reflects the potential dilution of the assumed exchange of various unit and share-based payment awards into common shares to the extent they are dilutive.

Share-Based Compensation

The fair value of OP Units, formation awards ("Formation Awards"), LTIP Units, LTIP Units with time-based vesting requirements ("Time-Based LTIP Units"), performance-based LTIP Units ("Performance-Based LTIP Units") and Employee Share Purchase Plan ("ESPP") common shares granted to our trustees, management and employees is determined, depending on the type of award, using the Monte Carlo or Black-Scholes methods, which is intended to estimate the fair value of the awards at the grant date using dividend yields, expected volatilities that are primarily based on available implied data and peer group companies' historical data and post-vesting restriction periods. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The shortcut method is used for determining the expected life used in the valuation method.

Compensation expense is based on the fair value of our common shares at the date of the grant and is recognized ratably over the vesting period using a graded vesting attribution model. We account for forfeitures as they occur. Distributions paid on unvested OP Units, LTIP Units, Time-Based LTIP Units and Performance-Based LTIP Units are charged to "Net income attributable to noncontrolling interests" in the statements of operations.

Recent Accounting Pronouncements

The following table provides a brief description of recent significant accounting pronouncements by the Financial Accounting Standards Board ("FASB") that have been or will be required to be adopted by us:

Standard	Description	Date of Adoption	Effect on the Financial Statements or Other Significant Matters
<p><i>Standards adopted</i></p> <p>ASU 2014-09, Revenue from Contracts with Customers (Topic 606), as clarified and amended by ASU 2016-08, ASU 2016-10 and ASU 2016-12</p>	<p>This standard establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. It requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures.</p>	<p>January 2018</p>	<p>We utilized the modified retrospective method of adoption. The standard excludes from its scope the areas of accounting that most significantly affect our revenue recognition, including accounting for leases and financial instruments. Our evaluation determined there were no required changes to our recognition of revenue related to our third-party real estate services, tenant reimbursements, property and asset management fees, or transactional/management fees for leasing, development and construction. Our evaluation also determined there were no required changes to our recognition of promote fees and dispositions of real estate properties as we did not have any deferred gains due to continuing involvement at the time of adoption. Therefore, the adoption of this standard did not have a material impact on our financial statements. We adopted the practical expedient of this standard to only assess the recognition of revenue for open contracts at the date of adoption and there was no adjustment to the opening balance of our accumulated deficit at January 1, 2018. The comparative information has not been restated and continues to be reported under the accounting standards in effect for that period.</p>
<p>ASU 2018-09, Codification Improvements</p>	<p>These amendments provide clarifications and corrections to certain ASC subtopics including the following: 220-10 (Income Statement - Reporting Comprehensive Income - Overall), 470-50 (Debt - Modifications and Extinguishments), 480-10 (Distinguishing Liabilities from Equity - Overall), 718-740 (Compensation - Stock Compensation - Income Taxes), 805-740 (Business Combinations - Income Taxes), 815-10 (Derivatives and Hedging - Overall), and 820-10 (Fair Value Measurement - Overall).</p>	<p>December 2018</p>	<p>The adoption and implementation of this standard did not have a material impact on our financial statements.</p>

Standard	Description	Date of Adoption	Effect on the Financial Statements or Other Significant Matters
<i>Standard not yet adopted</i>			
ASU 2016-02, Leases (Topic 842), as clarified and amended by ASU 2018-01, ASU 2018-10, ASU 2018-11 and ASU 2018-20	This standard establishes principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. ASU 2016-02 requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase. Lessees are required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. Lessees will recognize expense based on the effective interest method for finance leases or on a straight-line basis for operating leases. The ASU also clarifies that an assessment of whether a land easement meets the definition of a lease under the new lease standard is required. The provisions of this standard are effective for fiscal years beginning after December 15, 2018 and should be applied through a modified retrospective transition, which includes optional practical expedients related to leases that commenced before the effective date and allows the new requirements to be applied on the date of adoption rather than the beginning of the earliest comparative period presented.	January 2019	We completed our evaluation of the implementation of this standard. ASU 2016-02 will more significantly impact the accounting for leases in which we are the lessee. We have leases for which we anticipate recording operating right-of-use assets totaling \$31.0 million to \$41.0 million and operating lease liabilities totaling \$33.0 million to \$43.0 million, which are equal to the present value of the remaining minimum lease payments upon adoption of this standard. Under ASU 2016-02, initial direct costs for both lessees and lessors would include only those costs that are incremental to the arrangement and would not have been incurred if the lease had not been obtained. As a result, we will no longer be able to capitalize internal leasing costs and instead will be required to expense these costs as incurred. Capitalized internal leasing costs were \$6.5 million, \$2.9 million and \$2.5 million for each of the three years in the period ended December 31, 2018. We will apply the modified retrospective approach of adoption and will elect the transition practical expedients, including the Relief Package for existing leases, the Easement practical expedient for existing easements, but not the Hindsight expedient.

3. The Combination

In the Combination on July 18, 2017, we acquired the JBG Assets in exchange for approximately 37.2 million common shares and OP Units. The Combination has been accounted for at fair value under the acquisition method of accounting. The following allocation of the purchase price is based on the fair value of the assets acquired and liabilities assumed (in thousands):

Fair value of purchase consideration:	
Common shares and OP Units	\$ 1,224,885
Cash	20,573
Total consideration paid	\$ 1,245,458
Fair value of assets acquired and liabilities assumed:	
Land and improvements	\$ 338,072
Building and improvements	609,156
Construction in progress, including land	699,800
Leasehold improvements and equipment	7,890
Real estate	1,654,918
Cash	104,529
Restricted cash	13,460
Investments in and advances to unconsolidated real estate ventures	241,142
Identified intangible assets	138,371
Notes receivable ⁽¹⁾	50,934
Identified intangible liabilities	(8,687)
Mortgages payable assumed ⁽²⁾	(768,523)
Capital lease obligations assumed ⁽³⁾	(33,543)
Lease assumption liabilities ⁽⁴⁾	(48,127)
Deferred tax liability ⁽⁵⁾	(18,610)
Other liabilities acquired, net	(60,048)
Noncontrolling interests in consolidated subsidiaries	(3,588)
Net assets acquired	1,262,228
Gain on bargain purchase ⁽⁶⁾	16,770
Total consideration paid	\$ 1,245,458

⁽¹⁾ During the year ended December 31, 2017, we received proceeds of \$50.9 million from the repayment of the notes receivable acquired in the Combination.

⁽²⁾ Subject to various interest rate swap and cap agreements assumed in the Combination that are considered economic hedges, but not designated as accounting hedges.

⁽³⁾ In the Combination, two ground leases were assumed that were determined to be capital leases. On July 25, 2017, we purchased a land parcel located in Reston, Virginia associated with one of the ground leases for \$19.5 million.

⁽⁴⁾ Includes a \$14.0 million payment to a tenant, which was paid in 2018, and a \$34.1 million lease liability we assumed in relocating a tenant to one of our office buildings. The \$34.1 million assumed lease liability is based on the contractual payments we assumed under the tenant's previous lease, which are partially offset by estimated sub-tenant income we anticipate receiving as we actively pursue a sub-tenant.

⁽⁵⁾ Related to the management and leasing contracts acquired in the Combination.

⁽⁶⁾ The Combination resulted in a gain on bargain purchase of \$24.4 million for the year ended December 31, 2017 because the fair value of the identifiable net assets acquired exceeded the purchase consideration. As a result of finalizing our fair value estimates used in the purchase price allocation related to the Combination, during the year ended December 31, 2018, we adjusted the fair value of certain assets acquired and liabilities assumed consisting of a decrease of \$468,000 to investments in and advances to unconsolidated real estate ventures, an increase of \$4.7 million to lease assumption liabilities and an increase of \$2.4 million to other liabilities acquired, resulting in a reduction of the gain on bargain purchase of \$7.6 million for the year ended December 31, 2018. The purchase consideration was based on the fair value of the common shares and OP Units issued in the Combination. We have concluded that all acquired assets and liabilities were recognized and that the valuation procedures and resulting estimates of fair values were appropriate.

The fair value of the common shares and OP Units purchase consideration was determined as follows (in thousands, except exchange ratio and price per share/unit):

Outstanding common shares and common limited partnership units prior to the Combination	100,571
Exchange ratio ⁽¹⁾	2.71
Common shares and OP Units issued in consideration	<u>37,164</u>
Price per share/unit ⁽²⁾	<u>\$ 37.10</u>
Fair value of common shares and OP Units issued in consideration	<u>\$ 1,378,780</u>
Fair value adjustment to OP Units due to transfer restrictions	(43,304)
Portion of consideration attributable to performance of future services ⁽³⁾	(110,591)
Fair value of common shares and OP Units purchase consideration	<u><u>\$ 1,224,885</u></u>

⁽¹⁾ Represents the implied exchange ratio of one common share and OP Unit of JBG SMITH for 2.71 common shares and common limited partnership units prior to the Combination.

⁽²⁾ Represents the volume weighted average share price on July 18, 2017.

⁽³⁾ OP Unit consideration paid to certain of the owners of the JBG Assets which have a fair value of \$110.6 million is subject to post-combination employment with vesting over periods of either 12 or 60 months and amortization is recognized as compensation expense over the period of employment in "General and administrative expense: Share-based compensation related to Formation Transaction and special equity awards" in the statements of operations.

The JBG Assets acquired on July 18, 2017 comprise: (i) 30 operating assets comprising 21 commercial assets totaling approximately 4.1 million square feet (2.4 million square feet at our share) and nine multifamily assets with 2,883 units (1,099 units at our share); (ii) 11 commercial and multifamily assets under construction totaling over 2.5 million square feet (2.2 million square feet at our share); (iii) two near-term development commercial and multifamily assets totaling approximately 401,000 square feet (242,000 square feet at our share); (iv) 26 future development assets totaling approximately 11.7 million square feet (8.5 million square feet at our share) of estimated potential development density; and (v) JBG/Operating Partners, L.P., a real estate services company providing investment, development, asset management, property management, leasing, construction management and other services. Before the Combination, JBG/Operating Partners, L.P. was owned by 20 unrelated individuals, 19 of whom became our employees and three of whom serve on our Board of Trustees.

The fair values of tangible and identified intangible assets and liabilities, which have definite lives, are as follows:

	Total Fair Value	Weighted Average Amortization Period	Useful Life ⁽¹⁾
	(In thousands)	(In years)	
Tangible assets:			
Building and improvements	\$ 543,584		3 - 40 years
Tenant improvements	65,572		Shorter of useful life or remaining life of the respective lease
Total building and improvements	<u>\$ 609,156</u>		
Leasehold improvements	\$ 4,422		Shorter of useful life or remaining life of the respective lease
Equipment	3,468		5 years
Total leasehold improvements and equipment	<u>\$ 7,890</u>		
Identified intangible assets:			
In-place leases	\$ 60,317	6.4	Remaining life of the respective lease
Above-market real estate leases	11,732	6.3	Remaining life of the respective lease
Below-market ground leases	332	88.5	Remaining life of the respective lease
Option to enter into ground lease	17,090	N/A	Remaining life of contract
Management and leasing contracts ⁽²⁾	48,900	7.5	Estimated remaining life of contracts, ranging between 3 - 9 years
Total identified intangible assets	<u>\$ 138,371</u>		
Identified intangible liabilities:			
Below-market real estate leases	\$ 8,687	10.3	Remaining life of the respective lease

⁽¹⁾ In determining these useful lives, we considered the length of time the asset had been in existence, the maintenance history, as well as anticipated future maintenance, and any contractual stipulations that might limit the useful life.

⁽²⁾ Includes in-place property management, leasing, asset management and development management contracts.

Costs related to the Formation Transaction (such as advisory, severance, legal, accounting, valuation and other professional fees) are included in "Transaction and other costs" in our statements of operations. Transaction and other costs of \$27.7 million for the year ended December 31, 2018 comprised fees and expenses incurred in connection with the Formation Transaction (including transition services provided by our former parent, integration costs and severance costs) of \$15.9 million, costs related to other completed, potential and pursued transactions of \$9.0 million and costs related to the successful pursuit of an Amazon.com, Inc. ("Amazon") headquarters at our properties in National Landing ("Amazon HQ2") of \$2.8 million. Transaction and other costs of \$127.7 million for the year ended December 31, 2017 consist primarily of fees and expenses incurred in connection with the Formation Transaction, including severance and transaction bonus expense of \$40.8 million, investment banking fees of \$33.6 million, legal fees of \$13.9 million and accounting fees of \$10.8 million.

The following pro forma information for the year ended December 31, 2017 is presented as if the Formation Transaction had occurred on January 1, 2016. This pro forma information is based upon historical financial statements, adjusted for certain factually supported items directly related to the Formation Transaction. This pro forma information does not purport to represent what the actual results of our operations would have been, nor does it purport to predict the results of operations of future periods. The pro forma information was adjusted to exclude transaction and other costs of \$127.7 million and the gain on bargain purchase of \$24.4 million and their related income tax benefits for the year ended December 31, 2017.

	Year Ended	
	December 31, 2017	
	(In thousands)	
Unaudited pro forma information:		
Total revenue	\$	637,672
Net loss attributable to common shareholders		(19,343)

The total revenue and net loss of the JBG Assets for the year ended December 31, 2017 included in our statements of operations from the acquisition date was \$71.3 million and \$23.1 million.

4. Acquisitions, Dispositions and Assets Held for Sale

Acquisitions

In December 2018, we purchased a 4.25-acre land parcel, Potomac Yard Land Bay H located in Alexandria, Virginia, for \$23.0 million through a reverse Section 1031 of the Code like-kind exchange agreement with a third party intermediary. See Note 7 for further discussion. In conjunction with the acquisition, we recorded a liability of \$15.1 million, based on the fair value estimate to remediate pre-existing environmental matters, which was capitalized as part of the cost of the land.

In December 2018, we acquired the remaining 3.1% interest in West Half, a real estate venture, for \$5.0 million, which increased our interest to 100.0%. Prior to the acquisition, West Half was a consolidated VIE.

Dispositions

The following is a summary of disposition activity for the year ended December 31, 2018:

Date Disposed	Assets	Segment	Location	Total Square Feet	Gross Sales Price	Cash Proceeds from Sale ⁽¹⁾		Gain on Sale of Real Estate
						(In thousands)		
February 13, 2018	Summit - MWAA	Commercial	Reston, Virginia	—	\$ 2,154	\$ 2,154	\$ 455	
April 3, 2018	Summit I and II / Summit Land ⁽²⁾	Commercial	Reston, Virginia	284,118	95,000	35,240	6,189	
May 1, 2018	Bowen Building ⁽³⁾	Commercial	Washington, D.C.	231,402	140,000	136,488	27,207	
September 21, 2018	Executive Tower ⁽⁴⁾	Commercial	Washington, D.C.	129,831	121,445	113,267	12,378	
October 23, 2018	1233 20th Street ⁽⁵⁾	Commercial	Washington, D.C.	149,684	65,000	21,229	4,354	
October 25, 2018	Falkland Chase - North (out-of-service portion)	Multifamily	Silver Spring, Maryland	13,284	3,819	3,819	1,600	
Total				808,319	\$ 427,418	\$ 312,197	\$ 52,183	

⁽¹⁾ Net of related mortgage loan payments.

⁽²⁾ Total square feet included 700,000 square feet of estimated potential development density. In connection with the sale, we repaid the related \$59.0 million mortgage loan.

⁽³⁾ In connection with the sale, we repaid \$115.0 million of the then outstanding balance on our revolving credit facility.

⁽⁴⁾ Proceeds from the sale were held in escrow and classified as "Restricted cash" on our balance sheet as of December 31, 2018.

⁽⁵⁾ In connection with the sale, we repaid the related \$41.9 million mortgage loan.

In August 2018, JP Morgan, our partner in the real estate venture that owned the Investment Building, a 401,000 square foot office building located in Washington, D.C., acquired our 5.0% interest in the venture. In December 2018, our unconsolidated real estate venture with Canadian Pension Plan Investment Board ("CPPIB") sold The Warner, a 583,000 square foot office building located in Washington, D.C. See Note 6 for additional information.

Assets Held for Sale

As of December 31, 2018 and 2017, we had certain real estate properties that were classified as held for sale. The amounts included in "Assets held for sale" in our balance sheets primarily represent real estate investment balances. The following is a summary of assets held for sale:

Assets	Segment	Location	Total Square Feet	Assets Held for Sale		Liabilities Related to Assets Held for Sale
				(In thousands)		
December 31, 2018						
Commerce Executive ⁽¹⁾	Commercial	Reston, Virginia	388,562	\$ 78,981	\$ 3,717	
December 31, 2017						
Summit - MWAA ⁽²⁾	Commercial	Reston, Virginia	—	\$ 1,699	\$ —	
Potomac Yard Land Bay G ⁽³⁾	Other	Alexandria, Virginia	—	6,594	—	
				\$ 8,293	\$ —	

⁽¹⁾ In July 2018, the buyer's deposit related to the contract to sell Commerce Executive became non-refundable. In February 2019, we sold Commerce Executive for \$115.0 million. The sale also included approximately 894,000 square feet of estimated potential development density. The sale was part of a reverse 1031 like-kind exchange. See Note 7 for additional information.

⁽²⁾ As previously disclosed, in February 2018, Summit - MWAA was sold for \$2.2 million.

⁽³⁾ During the second quarter of 2018, the buyer forfeited their deposit and the property was removed from assets held for sale.

5. Tenant and Other Receivables, Net

The following is a summary of tenant and other receivables:

	December 31,	
	2018	2017
	(In thousands)	
Tenants	\$ 31,362	\$ 30,672
Third-party real estate services	12,443	8,954
Other	9,463	12,992
Allowance for doubtful accounts	(6,700)	(5,884)
Total tenant and other receivables, net	<u>\$ 46,568</u>	<u>\$ 46,734</u>

We incurred bad debt expense of approximately \$3.3 million, \$3.8 million and \$750,600 during each of the three years in the period ended December 31, 2018, which is included in "Property operating expenses" in the statements of operations.

6. Investments in and Advances to Unconsolidated Real Estate Ventures

The following is a summary of the composition of our investments in and advances to unconsolidated real estate ventures:

Real Estate Venture Partners	Ownership Interest ⁽¹⁾	December 31,	
		2018	2017
		(In thousands)	
CPPIB	55.0% - 68.5%	\$ 97,521	\$ 36,317
Landmark	1.8% - 49.0%	84,320	95,368
CBREI Venture	5.0% - 64.0%	73,776	79,062
Berkshire Group	50.0%	43,937	27,761
Brandywine	30.0%	13,777	13,741
CIM Group ("CIM") and Pacific Life Insurance Company ("PacLife")	16.7%	9,339	—
JP Morgan	—%	—	9,296
Other		128	246
Total investments in unconsolidated real estate ventures		<u>322,798</u>	<u>261,791</u>
Advances to unconsolidated real estate ventures		80	20
Total investments in and advances to unconsolidated real estate ventures		<u>\$ 322,878</u>	<u>\$ 261,811</u>

⁽¹⁾ Ownership interests as of December 31, 2018. We have multiple investments with certain venture partners with varying ownership interests.

In January 2018, we invested \$10.1 million for a 16.67% interest in a real estate venture with CIM and PacLife, which purchased the 1,152-key Wardman Park hotel, located adjacent to the Woodley Park Metro Station in northwest Washington, D.C. Prior to the acquisition by this venture, the JBG Legacy Funds owned a 47.64% interest in the Wardman Park hotel. The JBG Legacy Funds did not receive any proceeds from the sale, as the net proceeds were used to satisfy the prior mortgage debt. A third-party asset manager oversees the hotel operations on behalf of the venture and our involvement will increase only to the extent the land development opportunity becomes the primary business plan for the asset.

In February 2018, we entered into a real estate venture with CPPIB to develop and own 1900 N Street, an under construction commercial asset in Washington, D.C. We contributed 1900 N Street, valued at \$95.9 million, to the real estate venture, and CPPIB has committed to contribute approximately \$101.3 million to the venture for a 45.0% interest, which will reduce our ownership interest from 100.0% at the real estate venture's formation to 55.0% as contributions are funded.

In June 2018, the real estate venture with CPPIB that owns 1101 17th Street, a 216,000 square foot office building located in Washington, D.C., in which we have a 55.0% ownership interest, refinanced a mortgage loan payable that was collateralized by

the property. The terms of the new mortgage loan eliminated the principal guaranty provisions that had been included in the prior loan. At the time of refinancing, distributions and our share of the cumulative earnings of the venture exceeded our investment in the venture by \$5.4 million, which resulted in a negative investment balance. After the elimination of the principal guaranty provisions in the prior mortgage loan, we no longer guarantee the obligations of the venture or are obligated to provide further financial support to the venture. Accordingly, we recognized the \$5.4 million negative investment balance as income within "Income from unconsolidated real estate ventures, net" in our statements of operations for the year ended December 31, 2018, which results in a zero investment balance in the real estate venture that owns 1101 17th Street in our balance sheet as of December 31, 2018. We have also suspended the equity method accounting for this real estate venture. We will recognize as income any future distributions from the venture until our share of unrecorded earnings and contributions exceed the cumulative excess distributions previously recognized in income. During the year ended December 31, 2018, we recognized income of \$8.3 million related to distributions from the real estate venture that owns 1101 17th Street, which is included in "Income from unconsolidated real estate ventures, net" in our statement of operations.

In August 2018, JP Morgan, our partner in the real estate venture that owned the Investment Building, a 401,000 square foot office building located in Washington, D.C., acquired our 5.0% interest in the venture for \$24.6 million, resulting in a gain of \$15.5 million, which is included in "Income from unconsolidated real estate ventures, net" in our statement of operations for the year ended December 31, 2018.

In December 2018, our unconsolidated real estate venture with CPPIB sold The Warner, a 583,000 square foot office building located in Washington, D.C., for \$376.5 million. In connection with the sale, the unconsolidated real estate venture recognized a gain on sale of \$32.5 million, of which our proportionate share was \$20.6 million, which is included in "Income from unconsolidated real estate ventures, net" in our statement of operations for the year ended December 31, 2018. Additionally, in connection with the sale, our unconsolidated real estate venture repaid the related mortgage payable of \$270.5 million.

The following is a summary of the debt of our unconsolidated real estate ventures:

	Weighted Average Effective Interest Rate ⁽¹⁾	December 31,	
		2018	2017
(In thousands)			
Variable rate ⁽²⁾	5.53%	\$ 461,704	\$ 534,500
Fixed rate ⁽³⁾	4.02%	665,662	657,701
Unconsolidated real estate ventures - mortgages payable		1,127,366	1,192,201
Unamortized deferred financing costs		(1,998)	(2,000)
Unconsolidated real estate ventures - mortgages payable, net ⁽⁴⁾		\$ 1,125,368	\$ 1,190,201

⁽¹⁾ Weighted average effective interest rate as of December 31, 2018.

⁽²⁾ Includes variable rate mortgages payable with interest rate cap agreements.

⁽³⁾ Includes variable rate mortgages payable with interest rates fixed by interest rate swap agreements.

⁽⁴⁾ See Note 19 for additional information on guarantees of the debt of certain of our unconsolidated real estate ventures.

The following is a summary of the financial information for our unconsolidated real estate ventures:

	December 31,	
	2018	2017
(In thousands)		
Combined balance sheet information:		
Real estate, net	\$ 2,050,985	\$ 2,106,670
Other assets, net	169,264	264,731
Total assets	<u>\$ 2,220,249</u>	<u>\$ 2,371,401</u>
Borrowings, net	\$ 1,125,368	\$ 1,190,201
Other liabilities, net	94,845	76,416
Total liabilities	<u>1,220,213</u>	<u>1,266,617</u>
Total equity	<u>1,000,036</u>	<u>1,104,784</u>
Total liabilities and equity	<u>\$ 2,220,249</u>	<u>\$ 2,371,401</u>

	Year Ended December 31,		
	2018	2017	2016
(In thousands)			
Combined income statement information:			
Total revenue	\$ 300,032	\$ 135,256	\$ 68,118
Operating income ⁽¹⁾	56,262	14,741	19,283
Net income (loss)	(1,155)	(7,593)	5,234

⁽¹⁾ Includes gain on sale of The Warner of \$32.5 million recognized by our unconsolidated real estate venture with CPPIB during the year ended December 31, 2018.

7. Variable Interest Entities

We hold various interests in entities deemed to be VIEs, which we evaluate at acquisition, formation, after a change in the ownership agreement or a change in the real estate venture's economics to determine if the VIEs should be consolidated in our financial statements or should no longer be considered a VIE. Certain criteria we assess in determining whether the VIEs should be consolidated relate to our at-risk equity, our control over significant business activities, our voting rights, the noncontrolling interest kick-out rights and whether we are the primary beneficiary of the VIE.

Unconsolidated VIEs

As of December 31, 2018 and 2017, we have interests in entities deemed to be VIEs that are in the development stage and do not hold sufficient equity at risk or conduct substantially all their operations on behalf of an investor with disproportionately few voting rights. Although we are engaged to act as the managing partner in charge of day-to-day operations of these investees, we are not the primary beneficiary of these VIEs as we do not hold unilateral power over activities that, when taken together, most significantly impact the respective VIE's performance. We account for our investment in these entities under the equity method. As of December 31, 2018 and 2017, the net carrying amounts of our investment in these entities were \$232.8 million and \$163.5 million, which are included in "Investments in and advances to unconsolidated real estate ventures" in our balance sheets. Our equity in the income of unconsolidated VIEs is included in "Income from unconsolidated real estate ventures, net" in our statements of operations. Our maximum exposure to loss in these entities is limited to our investments, construction commitments and debt guarantees. See Note 19 for additional information.

Consolidated VIEs

JBG SMITH LP is our most significant consolidated VIE. We hold the majority membership interest in the operating partnership, act as the general partner and exercise full responsibility, discretion and control over its day-to-day management.

The noncontrolling interests of the operating partnership do not have substantive liquidation rights, substantive kick-out rights without cause, or substantive participating rights that could be exercised by a simple majority of noncontrolling interest members

(including by such a member unilaterally). Because the noncontrolling interest holders do not have these rights, the operating partnership is a VIE. As general partner, we have the power to direct the core activities of the operating partnership that most significantly affect its performance, and through our majority interest in the operating partnership have both the right to receive benefits from and the obligation to absorb losses of the operating partnership. Accordingly, we are the primary beneficiary of the operating partnership and consolidate the operating partnership in our financial statements. As we conduct our business and hold our assets and liabilities through the operating partnership, the total assets and liabilities of the operating partnership comprise substantially all of our consolidated assets and liabilities.

In conjunction with the acquisition of Potomac Yard Land Bay H located in Alexandria, Virginia in December 2018, we entered into a reverse Code Section 1031 like-kind exchange agreement with a third party intermediary, which, for a maximum of 180 days, allowed us to defer for tax purposes, gains on the sale of other properties identified and sold within this period. Until the earlier of the termination of the exchange agreement or 180 days after the acquisition date, the third party intermediary was the legal owner of the entity that owned this property. The agreement that governed the operations of this entity provided us with the power to direct the activities that most significantly impacted the entity's economic performance. This entity is deemed a VIE as of December 31, 2018 primarily because it may not have sufficient equity at risk to finance its activities without additional subordinated financial support from other parties. We determined that we are the primary beneficiary of the VIE as a result of having the power to direct the activities that most significantly impact its economic performance and the obligation to absorb losses, as well as the right to receive benefits, that could be potentially significant to the VIE. Accordingly, we consolidated the property and its operations as of the acquisition date. Legal ownership of this entity was transferred to us by the qualified intermediary after of the sale of Commerce Executive in February 2019.

We also consolidate certain other VIEs in which we control the most significant business activities. These entities are VIEs because they are in the development stage and do not hold sufficient equity at risk. We are the primary beneficiaries of these VIEs because the noncontrolling interest holders do not have substantive kick-out or participating rights and we control all of the significant business activities.

As of December 31, 2018, we consolidated two VIEs with total assets and liabilities, excluding the operating partnership, of \$94.8 million and \$43.4 million. As of December 31, 2017, we consolidated two VIEs with total assets and liabilities, excluding the operating partnership, of \$111.0 million and \$8.8 million.

In December 2018, we acquired the remaining interest in West Half. Prior to the acquisition, West Half was a consolidated VIE. See Note 4 for additional information.

8. Other Assets, Net

The following is a summary of other assets, net:

	December 31,	
	2018	2017
	(In thousands)	
Deferred leasing costs	\$ 202,066	\$ 171,153
Accumulated amortization	(72,465)	(67,180)
Deferred leasing costs, net	129,601	103,973
Identified intangible assets, net	89,859	126,467
Prepaid expenses	6,482	9,038
Deferred financing costs on credit facility, net	4,806	6,654
Deposits	3,633	6,317
Derivative agreements, at fair value	10,383	2,141
Other	20,230	9,333
Total other assets, net	<u>\$ 264,994</u>	<u>\$ 263,923</u>

The following is a summary of the composition of identified intangible assets, net:

	December 31,	
	2018	2017
	(in thousands)	
Identified intangible assets:		
In-place leases	\$ 38,216	\$ 72,086
Above-market real estate leases	9,414	12,066
Below-market ground leases	2,215	2,547
Option to enter into ground lease	17,090	17,090
Management and leasing contracts	48,900	48,900
Other	166	206
Total identified intangibles assets	116,001	152,895
Accumulated amortization:		
In-place leases	11,602	20,015
Above-market real estate leases	2,405	1,600
Below-market ground leases	1,448	1,365
Option to enter into ground lease	251	78
Management and leasing contracts	10,297	3,209
Other	139	161
Total accumulated amortization	26,142	26,428
Identified intangible assets, net	<u>\$ 89,859</u>	<u>\$ 126,467</u>

The following is a summary of amortization expense included in the statements of operations related to identified intangible assets:

	Year Ended December 31,		
	2018	2017	2016
In-place lease amortization ⁽¹⁾	\$ 11,807	\$ 10,216	\$ 485
Above-market real estate lease amortization ⁽²⁾	2,390	1,428	78
Below-market ground lease amortization ⁽³⁾	85	87	85
Option to enter into ground lease amortization ⁽³⁾	173	—	—
Management and leasing contract amortization ⁽¹⁾	7,088	3,209	—
Other amortization ⁽¹⁾	18	14	92
Total identified intangible asset amortization	\$ 21,561	\$ 14,954	\$ 740

⁽¹⁾ Amounts are included in "Depreciation and amortization expenses" in our statements of operations.

⁽²⁾ Amounts are included in "Property rentals revenue" in our statements of operations.

⁽³⁾ Amounts are included in "Property operating expenses" in our statements of operations.

As of December 31, 2018, the estimated amortization of identified intangible assets is as follows for the next five years and thereafter:

Year ending December 31,	Amount
	(in thousands)
2019	\$ 16,184
2020	13,720
2021	10,591
2022	9,506
2023	8,924
Thereafter	30,934
Total	\$ 89,859

9. Debt

Mortgages Payable

The following is a summary of mortgages payable:

	Weighted Average Effective Interest Rate ⁽¹⁾	December 31,	
		2018	2017
		(In thousands)	
Variable rate ⁽²⁾	4.30%	\$ 308,918	\$ 498,253
Fixed rate ⁽³⁾	4.09%	1,535,734	1,537,706
Mortgages payable		1,844,652	2,035,959
Unamortized deferred financing costs and premium/ discount, net		(6,271)	(10,267)
Mortgages payable, net		\$ 1,838,381	\$ 2,025,692

⁽¹⁾ Weighted average effective interest rate as of December 31, 2018.

⁽²⁾ Includes variable rate mortgages payable with interest rate cap agreements.

⁽³⁾ Includes variable rate mortgages payable with interest rates fixed by interest rate swap agreements.

As of December 31, 2018, the net carrying value of real estate collateralizing our mortgages payable, excluding assets held for sale, totaled \$2.3 billion. Our mortgage loans contain covenants that limit our ability to incur additional indebtedness on these properties and in certain circumstances, require lender approval of tenant leases and/or yield maintenance upon repayment prior to maturity. Certain of our mortgage loans are recourse to us. As of December 31, 2018, we were not in default under any mortgage loan.

During the year ended December 31, 2018, aggregate borrowings totaled \$118.1 million, of which \$47.5 million relates to the principal balance on a new mortgage loan collateralized by 1730 M Street and the remainder related to construction draws under mortgages payable. We repaid mortgages payable with an aggregate principal balance of \$298.1 million and recognized losses on the extinguishment of debt in conjunction with these repayments of \$5.2 million for the year ended December 31, 2018.

In the Combination, we assumed mortgages payable with an aggregate principal balance of \$768.5 million. In addition, we entered into mortgages payable with an aggregate principal balance of \$79.3 million during the year ended December 31, 2017 with an ability to draw an additional \$143.7 million for construction. During the year ended December 31, 2017, we repaid mortgages payable with an aggregate principal balance of \$250.0 million, which includes mortgages payable totaling \$64.8 million assumed in the Combination. We recognized losses on the extinguishment of debt in conjunction with these repayments of \$701,000 for the year ended December 31, 2017.

As of December 31, 2018 and 2017, we had various interest rate swap and cap agreements with an aggregate notional value of \$1.3 billion and \$1.4 billion on certain of our mortgages payable, which mature on various dates concurrent with the maturity of the related mortgages payable. During the year ended December 31, 2018, we entered into various interest rate swap and cap agreements on certain of our mortgages payable with an aggregate notional value of \$381.3 million. See Note 17 for additional information.

Credit Facility

In July 2017, we entered into a \$1.4 billion credit facility, consisting of a \$1.0 billion revolving credit facility maturing in July 2021, with two six-month extension options, a delayed draw \$200.0 million unsecured term loan ("Tranche A-1 Term Loan") maturing in January 2023, and a delayed draw \$200.0 million unsecured term loan ("Tranche A-2 Term Loan") maturing in July 2024. The interest rate for the credit facility varies based on a ratio of our total outstanding indebtedness to a valuation of certain real property and assets and ranges (a) in the case of the revolving credit facility, from LIBOR plus 1.10% to LIBOR plus 1.50%, (b) in the case of the Tranche A-1 Term Loan, from LIBOR plus 1.20% to LIBOR plus 1.70% and (c) in the case of the Tranche A-2 Term Loan, from LIBOR plus 1.55% to LIBOR plus 2.35%. There are various LIBOR options in the credit facility, and we elected the one-month LIBOR option as of December 31, 2018. As of December 31, 2018, we were not in default under our credit facility.

In July 2017, in connection with the Combination, we drew \$115.8 million on the revolving credit facility and \$50.0 million under the Tranche A-1 Term Loan. In connection with the execution of the credit facility, we incurred \$11.2 million in debt issuance costs during the year ended December 31, 2017. In October 2017, we entered into an interest rate swap with a notional value of \$50.0 million effectively to convert the variable interest rate applicable to our Tranche A-1 Term Loan to a fixed interest rate.

In January 2018, we drew \$50.0 million under the Tranche A-1 Term Loan in accordance with the delayed draw provisions of the credit facility, bringing the outstanding borrowings under the term loan facility to \$100.0 million. Concurrent with the draw, we entered into an interest rate swap agreement effectively to convert the variable interest rate to a fixed interest rate. As of December 31, 2018 and 2017, we had interest rate swaps with an aggregate notional value of \$100.0 million and \$50.0 million effectively to convert the variable interest rate applicable to our Tranche A-1 Term Loan to a fixed interest rate, providing weighted average base interest rates under the facility agreement of 2.12% and 1.97% per annum. The interest rate swaps mature in January 2023, concurrent with the maturity of our Tranche A-1 Term Loan.

In July 2018, we drew \$200.0 million under the Tranche A-2 Term Loan, in accordance with the delayed draw provisions of the credit facility.

The following is a summary of amounts outstanding under the credit facility:

	Interest Rate ⁽¹⁾	December 31,	
		2018	2017
		(In thousands)	
Revolving credit facility ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾	3.60%	\$ —	\$ 115,751
Tranche A-1 Term Loan	3.32%	\$ 100,000	\$ 50,000
Tranche A-2 Term Loan	4.05%	200,000	—
Unsecured term loans		300,000	50,000
Unamortized deferred financing costs, net		(2,871)	(3,463)
Unsecured term loans, net		\$ 297,129	\$ 46,537

⁽¹⁾ Interest rate as of December 31, 2018.

⁽²⁾ As of December 31, 2018 and 2017, letters of credit with an aggregate face amount of \$5.7 million were provided under our revolving credit facility.

⁽³⁾ As of December 31, 2018 and 2017, net deferred financing costs related to our revolving credit facility totaling \$4.8 million and \$6.7 million were included in "Other assets, net."

⁽⁴⁾ In May 2018, in connection with the sale of the Bowen Building, we repaid \$115.0 million of the then outstanding balance on our revolving credit facility. See Note 4 for additional information.

⁽⁵⁾ The interest rate for the revolving credit facility excludes a 0.15% facility fee.

Principal Maturities

Principal maturities of debt outstanding as of December 31, 2018, including mortgages payable and the term loans, are as follows:

Year ending December 31,	Amount
	(In thousands)
2019	\$ 182,467
2020	97,141
2021	331,881
2022	327,500
2023	277,736
Thereafter	927,927
Total	\$ 2,144,652

10. Other Liabilities, Net

The following is a summary of other liabilities, net:

	December 31,	
	2018	2017
	(In thousands)	
Lease intangible liabilities	\$ 40,179	\$ 44,917
Accumulated amortization	(26,081)	(26,950)
Lease intangible liabilities, net	14,098	17,967
Prepaid rent	21,998	15,751
Lease assumption liabilities and accrued tenant incentives	32,422	50,866
Capital lease obligation	15,704	15,819
Security deposits	17,696	13,618
Environmental liabilities ⁽¹⁾	17,898	2,900
Ground lease deferred rent payable	3,510	3,730
Net deferred tax liability	6,878	8,202
Dividends payable	45,193	31,097
Other	6,209	1,327
Total other liabilities, net	<u>\$ 181,606</u>	<u>\$ 161,277</u>

⁽¹⁾ Includes a \$15.1 million liability to remediate pre-existing environmental matters related to Potomac Yard Land Bay H, which was acquired in December 2018.

Amortization expense included in "Property rentals" in the statements of operations related to lease intangible liabilities for each of the three years in the period ended December 31, 2018 was \$2.6 million, \$2.3 million and \$1.4 million.

As of December 31, 2018, the estimated amortization of lease intangible liabilities is as follows for the next five years and thereafter:

Year ending December 31,	Amount
	(in thousands)
2019	\$ 2,232
2020	2,019
2021	1,753
2022	1,734
2023	1,726
Thereafter	4,634
Total	<u>\$ 14,098</u>

11. Income Taxes

For the years ended December 31, 2018 and 2017, we have elected to be taxed as a REIT, and our former parent also elected to be taxed as a REIT for the year ended December 31, 2016. Accordingly, we incurred no federal income tax expense for any of the three years in the period ended December 31, 2018 related to our REIT subsidiaries. The only federal income taxes included in the accompanying financial statements relate to activities of our TRSs. Due to the passage of federal tax reform legislation, which was signed into law on December 22, 2017 and which we refer as the 2017 Tax Act, our TRSs were required to decrease the net deferred tax liability, which resulted in a net tax benefit of \$3.9 million during the year ended December 31, 2017. The recorded tax charges in 2017 for the impact of the 2017 Tax Act were made using the current available information and technical guidance on the interpretations of the 2017 Tax Act. As permitted by Securities and Exchange Commission Staff Accounting Bulletin 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act, we recorded estimates and have subsequently finalized our

accounting analysis based on the guidance, interpretations and data available as of December 31, 2018. We did not have any changes to our 2017 estimate related to the 2017 Tax Act and therefore, it had no impact to our 2018 financial statements.

Our financial statements include the operations of our TRSs, which are subject to federal, state and local income taxes on their taxable income. As a REIT, we may also be subject to federal excise taxes if we engage in certain types of transactions. Continued qualification as a REIT depends on our ability to satisfy the REIT distribution tests, stock ownership requirements and various other qualification tests. As of December 31, 2018, our TRSs have an estimated federal and state net operating loss of \$6.8 million, which will expire in 2037 and 2038. The net basis of our assets and liabilities for tax reporting purposes is approximately \$114.0 million lower than the amounts reported in our balance sheet as of December 31, 2018.

The following is a summary of our income tax benefit (expense):

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Current tax benefit (expense)	\$ 20	\$ (496)	\$ (1,083)
Deferred tax benefit (expense)	718	10,408	—
Income tax benefit (expense)	<u>\$ 738</u>	<u>\$ 9,912</u>	<u>\$ (1,083)</u>

As of December 31, 2018 and 2017, we have a net deferred tax liability of \$6.9 million and \$8.2 million primarily related to the management and leasing contracts assumed in the Combination, partially offset by deferred tax assets associated with tax versus book differences, related general and administrative expenses and the net operating loss for 2018 and 2017. We are subject to federal, state and local income tax examinations by taxing authorities for 2015 through 2018.

	December 31,	
	2018	2017
	(in thousands)	
Deferred tax assets:		
Accrued bonus	\$ —	\$ 1,675
Net operating loss	2,326	1,710
Deferred revenue	998	71
Bad debt expense	583	111
Other	198	623
Total deferred tax assets	<u>4,105</u>	<u>4,190</u>
Valuation allowance	(469)	—
Total deferred tax assets, net of valuation allowance	<u>3,636</u>	<u>4,190</u>
Deferred tax liabilities:		
Management and leasing contracts	(9,905)	(11,840)
Other	(609)	(552)
Total deferred tax liabilities	<u>(10,514)</u>	<u>(12,392)</u>
Net deferred tax liability	<u>\$ (6,878)</u>	<u>\$ (8,202)</u>

During 2018, we established a valuation allowance attributable to a portion of the federal loss carry forward as we do not consider it more likely than not that a deferred tax asset will be realized.

During the year ended December 31, 2018, our Board of Trustees declared cash dividends totaling \$1.00 (regular dividends of \$0.90 per common share and a special dividend of \$0.10 per common share) of which \$0.42 was taxable as ordinary income for federal income tax purposes in 2018, \$0.355 were capital gain distributions and the remaining \$0.225 will be determined in 2019. During the year ended December 31, 2017, our Board of Trustees declared cash dividends of \$0.45 per common share of which \$0.385 was taxable as ordinary income for federal income tax purposes in 2017 and \$0.065 were capital gains distributions. No dividends were declared or paid in 2016.

12. Redeemable Noncontrolling Interests

JBG SMITH LP

In July 2017, JBG SMITH LP issued 19.8 million OP Units to persons other than JBG SMITH that became redeemable for cash or, at our election, our common shares beginning on August 1, 2018, subject to certain limitations. During the year ended December 31, 2018, unitholders redeemed 3.0 million OP units, which we elected to redeem for an equivalent number of our common shares. As of December 31, 2018, outstanding OP Units totaled 16.8 million, representing a 12.2% interest in JBG SMITH LP. On our balance sheets, our redeemable noncontrolling interests are presented at the higher of their redemption value at the end of each reporting period or their carrying value, with such adjustments recognized in "Additional paid-in capital." Redemption value is equivalent to the market value of one of our common shares at the end of the period multiplied by the number of vested OP units outstanding. In 2019, unitholders redeemed 1.7 million OP units, which we elected to redeem for an equivalent number of our common shares.

Consolidated Real Estate Venture

In November 2017, we became a partner in a real estate venture that owns an under construction multifamily asset located at 965 Florida Avenue in Washington, D.C. Pursuant to the terms of the 965 Florida Avenue real estate venture agreement, we will fund all capital contributions until our ownership interest reaches a maximum of 97.0%. Our partner can redeem its interest for cash two years after delivery, but no later than seven years subsequent to delivery. As of December 31, 2018, we held an 88.1% ownership interest in the real estate venture.

Below is a summary of the activity of redeemable noncontrolling interests:

	Year Ended December 31,					
	2018			2017		
	JBG SMITH LP	Consolidated Real Estate Venture	Total	JBG SMITH LP	Consolidated Real Estate Venture	Total
	(In thousands)					
Balance as of beginning of period	\$ 603,717	\$ 5,412	\$ 609,129	\$ —	\$ —	\$ —
Fair value of OP Unit redemptions	(109,208)	—	(109,208)	—	—	—
OP Units issued at the Separation	—	—	—	96,632	—	96,632
OP Units issued in connection with the Combination ⁽¹⁾	—	—	—	359,967	—	359,967
Net income (loss) attributable to redeemable noncontrolling interests	6,641	69	6,710	(7,320)	(8)	(7,328)
Other comprehensive income	1,384	—	1,384	225	—	225
Contributions (distributions)	(18,737)	500	(18,237)	(9,113)	5,420	(3,693)
Share-based compensation expense	52,190	—	52,190	32,634	—	32,634
Adjustment to redemption value	16,172	—	16,172	130,692	—	130,692
Balance as of end of period	<u>\$ 552,159</u>	<u>\$ 5,981</u>	<u>\$ 558,140</u>	<u>\$ 603,717</u>	<u>\$ 5,412</u>	<u>\$ 609,129</u>

⁽¹⁾ Excludes certain OP Units issued as part of the Combination which had an estimated fair value of \$110.6 million, the vesting of which is subject to post-combination employment. See Note 13 for additional information.

13. Share-Based Payments and Employee Benefits

OP UNITS

The acquisition of JBG/Operating Partners, L.P. in the Combination, resulted in the issuance of 3.3 million OP Units to its former owners with an estimated grant-date fair value of \$110.6 million. The OP Units were subject to post-combination vesting over periods of either 12 or 60 months based on continued employment. The significant assumptions used to value the OP Units included expected volatility (18.0% to 27.0%), risk-free interest rates (1.3% to 1.5%) and post-vesting restriction periods (1 year to 3 years). Compensation expense for these OP Units is recognized over the graded vesting period. See Note 3 for additional information.

The following table presents information regarding the OP Units activity:

	Unvested Shares	Weighted Average Grant- Date Fair Value
Unvested at December 31, 2017	3,086,962	33.49
Vested	(86,975)	37.10
Unvested at December 31, 2018	<u>2,999,987</u>	<u>33.39</u>

The total-grant date fair value of the OP Units that vested during the years ended December 31, 2018 and 2017 was \$3.2 million and \$7.2 million.

JBG SMITH 2017 Omnibus Share Plan

On June 23, 2017, our Board of Trustees adopted the JBG SMITH 2017 Omnibus Share Plan (the "Plan"), effective as of July 17, 2017, and authorized the reservation of approximately 10.3 million of our common shares pursuant to the Plan. On July 10, 2017, our then sole-shareholder approved the Plan. As of December 31, 2018, there were 4.8 million common shares available for issuance under the Plan.

Formation Awards

Pursuant to the Plan, on July 18, 2017, we granted approximately 2.7 million Formation Awards based on an aggregate notional value of approximately \$100.0 million divided by the volume-weighted average price on July 18, 2017 of \$37.10 per common share. In 2018, we granted 93,784 Formation Awards based on an aggregate notional value of approximately \$3.2 million divided by the volume-weighted average price on the date of issuance of \$34.40 per common share.

The Formation Awards are structured in the form of profits interests in JBG SMITH LP that provide for a share of appreciation determined by the increase in the value of a common share at the time of conversion over the volume-weighted average price of a common share at the time the formation unit was granted. The Formation Awards, subject to certain conditions, generally vest 25% on each of the third and fourth anniversaries and 50% on the fifth anniversary, of the date granted, subject to continued employment with JBG SMITH through each vesting date.

The value of vested Formation Awards is realized through conversion of the award into a number of LTIP Units, and subsequent conversion into a number of OP Units determined based on the difference between the volume-weighted average price of a common share at the time the Formation Award was granted and the value of a common share on the conversion date. The conversion ratio between Formation Awards and OP Units, which starts at zero, is the quotient of (i) the excess of the value of a common share on the conversion date above the per share value at the time the Formation Award was granted over (ii) the value of a common share as of the date of conversion. Like options, Formation Awards have a finite 10-year term over which their value is allowed to increase and during which they may be converted into LTIP Units (and in turn, OP Units). Holders of Formation Awards will not receive distributions or allocations of net income or net loss prior to vesting and conversion to LTIP Units.

The aggregate grant-date fair value of the Formation Awards granted during the years ended December 31, 2018 and 2017 was \$725,000 and \$23.7 million estimated using Monte Carlo simulations. Compensation expense for these awards is being recognized over a five-year period. The significant assumptions used to value the awards included:

	Year Ended December 31,	
	2018	2017
Expected volatility	27.0% to 29.0%	26.0%
Dividend yield	2.5% to 2.7%	2.3%
Risk-free interest rate	2.8% to 3.0%	2.3%
Expected life	7 years	7 years

The following table presents information regarding the Formation Awards activity:

	Unvested Shares	Weighted Average Grant- Date Fair Value
Unvested at December 31, 2017	2,673,814	\$ 8.84
Granted	93,784	7.73
Vested	(39,970)	8.32
Forfeited	(72,234)	8.84
Unvested at December 31, 2018	<u>2,655,394</u>	8.81

The total-grant date fair value of the Formation Awards that vested during the year ended December 31, 2018 was \$333,000.

LTIP, Time-Based LTIP and Special Time-Based LTIP Units

On July 18, 2017, we granted a total of 47,166 fully vested LTIP Units to the seven independent trustees in the notional amount of \$250,000 each. The LTIP Units may not be sold while such non-employee trustee is serving on the Board. On the same date, we also granted 59,927 LTIP units to a key employee of which 50% vested immediately and the remaining 50% vests ratably from the 31st to the 60th month following the grant date.

In May 2018, as part of their annual compensation, we granted a total of 25,770 fully vested LTIP Units to non-employee trustees with an aggregate grant-date fair value of approximately \$794,000.

During the years ended December 31, 2018 and 2017, we granted 367,519 and 302,518 Time-Based LTIP Units to management and other employees with a weighted average grant-date fair value of \$31.48 and \$33.71 per unit that vest over four years, 25.0% per year, subject to continued employment. Compensation expense for these units is being recognized over a four-year period.

Additionally, during the year ended December 31, 2018, related to our successful pursuit of Amazon HQ2, we granted 356,591 Special Time-Based LTIP Units to management and other employees with a weighted average grant-date fair value of \$36.84 per unit. Vesting of the Special Time-Based LTIP Units is conditioned on Amazon entering into definitive lease or asset purchase documentation with JBG SMITH prior to the fourth anniversary of the grant date; if such condition is satisfied, then the Special Time-Based LTIP Units vest 50% on each of the fourth and fifth anniversaries of the grant date, subject to continued employment. Compensation expense for these units is being recognized over a five-year period.

The aggregate grant-date fair value of the LTIP, Time-Based LTIP and Special Time-Based LTIP Units granted (collectively "Granted LTIPs") during the years ended December 31, 2018 and 2017 was \$25.5 million and \$13.7 million. Net income and net loss is allocated to each of the Granted LTIPs. Holders of the Granted LTIPs have the right to convert all or a portion of vested units into OP Units, which are then subsequently exchangeable for our common shares. Granted LTIPs do not have redemption rights, but any OP Units into which units are converted are entitled to redemption rights. Granted LTIPs, generally, vote with the OP Units and do not have any separate voting rights except in connection with actions that would materially and adversely affect the rights of the Granted LTIPs. The significant assumptions used to value these awards included:

	Year Ended December 31,	
	2018	2017
Expected volatility	20.0% to 22.0%	17.0% to 19.0%
Risk-free interest rate	1.9% to 2.6%	1.3% to 1.5%
Post-grant restriction periods	2 to 3 years	2 to 3 years

The following table presents information regarding Granted LTIP activity:

	Unvested Shares	Weighted Average Grant- Date Fair Value
Unvested at December 31, 2017	332,207	\$ 33.68
Granted	749,880	34.01
Vested	(110,723)	32.91
Forfeited	(8,702)	32.51
Unvested at December 31, 2018	<u>962,662</u>	34.03

The total-grant date fair value of the Granted LTIPs that vested during the years ended December 31, 2018 and 2017 was \$3.6 million and \$2.5 million.

Performance-Based LTIP and Special Performance-Based LTIP Units

During the years ended December 31, 2018 and 2017, we granted 567,106 and 605,072 Performance-Based LTIP Units to management and other employees under the Plan. Also, during the year ended December 31, 2018, related to our successful pursuit of Amazon HQ2, we granted 511,555 Special Performance-Based LTIP Units to management and other employees.

Performance-Based LTIP Units, including the Special Performance-Based LTIP Units, are performance-based equity compensation pursuant to which participants have the opportunity to earn LTIP Units based on the relative performance of the total shareholder return ("TSR") of our common shares compared to the companies in the FTSE NAREIT Equity Office Index, over the defined performance period beginning on the grant date, inclusive of dividends and stock price appreciation.

Our Performance-Based LTIP and Special Performance-Based LTIP Units have a three -year performance period. Fifty percent of any Performance-Based LTIP Units that are earned vest at the end of the three-year performance period and the remaining 50% on the fourth anniversary of the date of grant, subject to continued employment. Vesting of the Special Performance-Based LTIP Units is conditioned on Amazon entering into definitive lease or asset purchase documentation with JBG SMITH prior to the fourth anniversary of the grant date; if such condition is satisfied, then fifty percent of any Special Performance-Based LTIP Units that are earned at the end of the three-year performance period vest on the fourth anniversary of the date of grant and the remaining 50% on the fifth anniversary of the date of grant, subject to continued employment.

The grant-date fair value of the Performance-Based LTIP and Special Performance-Based LTIP Units granted during the years ended December 31, 2018 and 2017 was \$21.1 million and \$9.7 million valued using Monte Carlo simulations. Compensation expense for the Performance-Based LTIP Units is being recognized over a four-year period, while Compensation expense for the Special Performance Based LTIP Units is being recognized over a five-year period. The significant assumptions used to value both the Performance-Based LTIP and Special Performance-Based LTIP Units included:

	Year Ended December 31,	
	2018	2017
Expected volatility	19.9% to 26.0%	18.0%
Dividend yield	2.5% to 2.7%	2.3%
Risk-free interest rate	2.3% to 3.0%	1.5%

The following table presents information regarding the Performance-Based LTIP and Special Performance-Based LTIP Units activity:

	Unvested Shares	Weighted Average Grant- Date Fair Value
Unvested at December 31, 2017	604,522	\$ 15.95
Granted	1,078,661	19.52
Forfeited	(25,605)	16.29
Unvested at December 31, 2017	<u>1,657,578</u>	18.27

JBG SMITH 2017 Employee Share Purchase Plan

The JBG SMITH 2017 ESPP authorizes the issuance of up to 2.1 million common shares. The ESPP provides eligible employees an option to purchase, through payroll deductions, our common shares at a discount of 15.0% of the closing price of a common shares on relevant determination dates, provided that the fair market value of common shares, determined as of the first day of the relevant offering period, purchased by any eligible employee may not exceed \$25,000 in any calendar year. The maximum aggregate number of common shares reserved for issuance under the ESPP will automatically increase on January 1 of each year, unless the Compensation Committee of the Board of Trustees determines to limit any such increase, by the lesser of (i) 0.10% of the total number of outstanding common shares on December 31 of the preceding calendar year or (ii) 206,600 common shares.

Pursuant to the ESPP, employees purchased 20,178 common shares for \$597,000 during the year ended December 31, 2018. Compensation expense for the year ended December 31, 2018 was \$144,000 valued using the Black-Scholes model. The significant assumptions used to value the ESPP common shares included expected volatility (21.0%), dividend yield (2.5%), risk-free interest rate (2.0%) and expected life (six months). As of December 31, 2018, there were 2.0 million common shares authorized and available for issuance under the ESPP.

Share-Based Compensation Expense

Share-based compensation expense is summarized as follows:

	Year Ended December 31,		
	2018	2017	2016
	(In thousands)		
Time-Based LTIP Units	\$ 10,095	\$ 2,211	—
Performance-Based LTIP Units	5,271	1,172	—
LTIP Units	794	—	—
Other equity awards ⁽¹⁾	3,826	1,526	4,502
Share-based compensation expense - other	19,986	4,909	4,502
Formation Awards	5,606	5,169	\$ —
OP Units ⁽²⁾	29,455	21,467	—
LTIP Units ⁽²⁾	277	2,615	—
Special Performance-Based LTIP Units	323	—	—
Special Time-Based LTIP Units	369	—	—
Share-based compensation related to Formation Transaction and special equity awards ⁽³⁾	36,030	29,251	—
Total share-based compensation expense	56,016	34,160	4,502
Less amount capitalized	(3,341)	(467)	—
Share-based compensation expense	\$ 52,675	\$ 33,693	\$ 4,502

⁽¹⁾ For the year ended December 31, 2018, primarily includes compensation expense for certain executives who have elected to receive all or a portion of any cash bonus that may be paid in 2019, related to 2018 service, in the form of fully vested LTIP Units. For the years ended December 31, 2017 and 2016, represents share-based compensation expense related to equity awards prior to the Formation Transaction.

⁽²⁾ Represents share-based compensation expense for LTIP Units and OP Units subject to post-Combination employment obligations.

⁽³⁾ Included in "General and administrative expense: Share-based compensation related to Formation Transaction and special equity awards" in the accompanying statements of operations.

As of December 31, 2018, we had \$119.0 million of total unrecognized compensation expense related to unvested share-based payment arrangements (unvested OP Units, Formation Awards, Time-Based LTIP Units, Special Time-Based LTIP Units, Performance-Based LTIP Units and Special Performance-Based LTIP Units). This expense is expected to be recognized over a weighted average period of 2.8 years.

Employee Benefits

We have a 401(k) defined contribution plan (the "401(k) Plan") covering substantially all of our officers and employees which permits participants to defer compensation up to the maximum amount permitted by law. We provide a discretionary matching contribution. Employees' contributions vest immediately and our matching contributions vest over five years. Our contributions for each of the three years in the period ended December 31, 2018 were \$1.8 million, \$3.6 million and \$2.4 million.

14. Interest Expense

The following is a summary of interest expense included in the statements of operations:

	Year Ended December 31,		
	2018	2017	2016
	(In thousands)		
Interest expense	\$ 91,651	\$ 69,178	\$ 54,379
Amortization of deferred financing costs	4,661	3,011	1,478
Net loss (gain) on derivative financial instruments not designated as cash flow hedges:			
Net unrealized	(926)	(1,348)	—
Net realized	(135)	27	—
Capitalized interest	(20,804)	(12,727)	(4,076)
Interest expense	<u>\$ 74,447</u>	<u>\$ 58,141</u>	<u>\$ 51,781</u>

15. Earnings (Loss) Per Common Share

The following summarizes the calculation of basic and diluted earnings per common share and provides a reconciliation of the amounts of net income (loss) available to common shareholders used in calculating basic and diluted earnings per common share:

	Year Ended December 31,		
	2018	2017	2016
	(In thousands, except per share amounts)		
Net income (loss)	\$ 46,613	\$ (79,084)	\$ 61,974
Net (income) loss attributable to redeemable noncontrolling interests	(6,710)	7,328	—
Net loss attributable to noncontrolling interests	21	3	—
Net income (loss) attributable to common shareholders	39,924	(71,753)	61,974
Distributions to participating securities	(2,599)	(1,655)	—
Net income (loss) available to common shareholders — basic and diluted	<u>\$ 37,325</u>	<u>\$ (73,408)</u>	<u>\$ 61,974</u>
Weighted average number of common shares outstanding — basic and diluted ⁽¹⁾	<u>119,176</u>	<u>105,359</u>	<u>100,571</u>
Earnings (loss) per common share:			
Basic	<u>\$ 0.31</u>	<u>\$ (0.70)</u>	<u>\$ 0.62</u>
Diluted	<u>\$ 0.31</u>	<u>\$ (0.70)</u>	<u>\$ 0.62</u>

⁽¹⁾ Reflects the weighted average common shares attributable to the Vornado Included Assets as of the date of the Separation for all periods prior to July 17, 2017,

The effect of the redemption of OP Units that were outstanding as of December 31, 2018 and 2017 is excluded in the computation of basic and diluted earnings per common share, as the assumed exchange of such units for common shares on a one-for-one basis

was antidilutive (the assumed redemption of these units would have no impact on the determination of diluted earnings per share). Since vested and outstanding OP Units, which are held by noncontrolling interests, are attributed gains and losses at an identical proportion to the common shareholders, the gains and losses attributable and their equivalent weighted average OP Unit impact are excluded from net income (loss) available to common shareholders and from the weighted average number of common shares outstanding in calculating basic and diluted earnings per common share. Performance-Based LTIP Units, Special Performance-Based LTIP Units and Formation Awards, which totaled 3.9 million and 3.3 million for the years ended December 31, 2018 and 2017, were excluded from the calculation of diluted earnings per common share as they were antidilutive, but potentially could be dilutive in the future.

16. Future Minimum Rental Income

We lease space to tenants under operating leases that expire at various dates through the year 2036. The leases provide for the payment of fixed base rents payable monthly in advance as well as reimbursements of real estate taxes, insurance and maintenance costs. Retail leases may also provide for the payment by the lessee of additional rents based on a percentage of their sales. As of December 31, 2018, future base rental revenue under these non-cancelable operating leases excluding extension options is as follows:

Year ending December 31,	<u>Amount</u>
	(In thousands)
2019	\$ 377,427
2020	321,205
2021	287,463
2022	256,352
2023	215,203
Thereafter	1,188,767

In December 2018, we leased (as landlord) the unimproved land at 1700 M Street for a 99-year term, with no extension options. 1700 M Street is a 34,000 square foot development site located in Washington, D.C.

17. Fair Value Measurements

Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis

To manage or hedge our exposure to interest rate risk, we follow established risk management policies and procedures, including the use of a variety of derivative financial instruments. We do not enter into derivative financial instruments for speculative purposes.

As of December 31, 2018 and 2017, we had various derivative financial instruments consisting of interest rate swap and cap agreements that are measured at fair value on a recurring basis. The net unrealized gain on our derivative financial instruments designated as cash flow hedges was \$8.3 million and \$1.8 million as of December 31, 2018 and 2017 and was recorded in "Accumulated other comprehensive income" in the balance sheet, of which a portion was reclassified to "Redeemable noncontrolling interests" as of December 31, 2018. Within the next 12 months, we expect to reclassify \$3.5 million as a decrease to interest expense. The net unrealized gain on our derivative financial instruments not designated as cash flow hedges was \$926,000 and \$1.3 million for the years ended December 31, 2018 and 2017 and is recorded in "Interest expense" in our statements of operations. The fair values of the derivative financial instruments are based on the estimated amounts we would receive or pay to terminate the contracts at the reporting date and are determined using interest rate pricing models and observable inputs. The derivative financial instruments are classified within Level 2 of the valuation hierarchy.

The following are assets and liabilities measured at fair value on a recurring basis:

	Fair Value Measurements			
	Total	Level 1	Level 2	Level 3
(In thousands)				
December 31, 2018				
Derivative financial instruments designated as cash flow hedges:				
Classified as assets in "Other assets, net"	\$ 7,913	\$ —	\$ 7,913	\$ —
Classified as liabilities in "Other liabilities, net"	1,723	—	1,723	—
Derivative financial instruments not designated as cash flow hedges:				
Classified as assets in "Other assets, net"	2,470	—	2,470	—
December 31, 2017				
Derivative financial instruments designated as cash flow hedges:				
Classified as assets in "Other assets, net"	\$ 1,506	\$ —	\$ 1,506	\$ —
Classified as liabilities in "Other liabilities, net"	2,640	—	2,640	—
Derivative financial instruments not designated as cash flow hedges:				
Classified as assets in "Other assets, net"	635	—	635	—
Classified as liabilities in "Other liabilities, net"	22	—	22	—

The fair values of our derivative financial instruments were determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of the derivative financial instrument. This analysis reflected the contractual terms of the derivative, including the period to maturity, and used observable market-based inputs, including interest rate market data and implied volatilities in such interest rates. While it was determined that the majority of the inputs used to value the derivatives fall within Level 2 of the fair value hierarchy under authoritative accounting guidance, the credit valuation adjustments associated with the derivatives also utilized Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default. However, as of December 31, 2018, the significance of the impact of the credit valuation adjustments on the overall valuation of the derivative financial instruments was assessed and it was determined that these adjustments were not significant to the overall valuation of the derivative financial instruments. As a result, it was determined that the derivative financial instruments in their entirety should be classified in Level 2 of the fair value hierarchy. The net unrealized gain included in "Other comprehensive income" was primarily attributable to the net change in unrealized gains or losses related to the interest rate swaps that were outstanding as of December 31, 2018, none of which were reported in the statements of operations because they were documented and qualified as hedging instruments.

Financial Assets and Liabilities Not Measured at Fair Value

As of December 31, 2018 and 2017, all financial instruments and liabilities were reflected in our balance sheets at amounts which, in our estimation, reasonably approximated their fair values, except for the following:

	December 31, 2018		December 31, 2017	
	Carrying Amount ⁽¹⁾	Fair Value	Carrying Amount ⁽¹⁾	Fair Value
(In thousands)				
Financial liabilities:				
Mortgages payable	\$ 1,844,652	\$ 1,870,078	\$ 2,035,959	\$ 2,060,899
Revolving credit facility	—	—	115,751	115,768
Unsecured term loans	300,000	300,727	50,000	50,029

⁽¹⁾ The carrying amount consists of principal only.

The fair value of the mortgages payable, revolving credit facility and unsecured term loans was determined using Level 2 inputs of the fair value hierarchy.

18. Segment Information

We review operating and financial data for each property on an individual basis; therefore, each of our individual properties is a separate operating segment. As of December 31, 2018, we redefined our reportable segments to be aligned with our new method of internal reporting and the way our Chief Executive Officer, who is also our Chief Operating Decision Maker ("CODM"), makes key operating decisions, evaluates financial results, allocates resources and manages our business. Accordingly, we aggregate our operating segments into three reportable segments (commercial, multifamily, and third-party asset management and real estate services) based on the economic characteristics and nature of our assets and services. To conform to the current period presentation, we have reclassified the prior period segment financial data for certain properties that had been classified as part of other to the commercial and multifamily segments and the elimination of intersegment activity has been included as part of other. The commercial segment was previously referred to as the office segment.

The CODM measures and evaluates the performance of our operating segments, with the exception of the third-party asset management and real estate services business, based on the net operating income ("NOI") of properties within each segment. NOI includes property rental revenues and tenant reimbursements and deducts property operating expenses and real estate taxes.

With respect to the third-party asset management and real estate services business, the CODM reviews revenues streams generated by this segment ("Third-party real estate services, including reimbursements"), as well as the expenses attributable to the segment ("General and administrative: third-party real estate services"), which are disclosed separately in the statements of operations. Management company assets primarily consist of management and leasing contracts with a net book value of \$38.6 million and \$45.7 million and are classified in "Other assets, net" in the balance sheets as of December 31, 2018 and 2017. Consistent with internal reporting presented to our CODM and our definition of NOI, the third-party asset management and real estate services operating results are excluded from the NOI data below.

The following table reflects the reconciliation of net income (loss) attributable to common shareholders to consolidated NOI:

	Year Ended December 31,		
	2018	2017	2016
	(In thousands)		
Net income (loss) attributable to common shareholders	\$ 39,924	\$ (71,753)	\$ 61,974
Add:			
Depreciation and amortization expense	211,436	161,659	133,343
General and administrative expense:			
Corporate and other	33,728	39,350	48,753
Third-party real estate services	89,826	51,919	19,066
Share-based compensation related to Formation Transaction and special equity awards	36,030	29,251	—
Transaction and other costs	27,706	127,739	6,476
Interest expense	74,447	58,141	51,781
Loss on extinguishment of debt	5,153	701	—
Reduction of gain (gain) on bargain purchase	7,606	(24,376)	—
Income tax expense (benefit)	(738)	(9,912)	1,083
Net (income) loss attributable to redeemable noncontrolling interests	6,710	(7,328)	—
Less:			
Third-party real estate services, including reimbursements	98,699	63,236	33,882
Other income	6,358	5,167	5,381
Income (loss) from unconsolidated real estate ventures, net	39,409	(4,143)	(947)
Interest and other income, net	15,168	1,788	2,992
Gain on sale of real estate	52,183	—	—
Net loss attributable to noncontrolling interests	21	3	—
Consolidated NOI	\$ 319,990	\$ 289,340	\$ 281,168

Below is a summary of NOI by segment. Items classified in other include future development assets, corporate entities and the elimination of intersegment activity.

	Year Ended December 31, 2018			
	Commercial	Multifamily	Other	Total
	(In thousands)			
Rental revenue:				
Property rentals	\$ 395,089	\$ 102,617	\$ 2,129	\$ 499,835
Tenant reimbursements	34,953	6,740	(2,403)	39,290
Total rental revenue	430,042	109,357	(274)	539,125
Rental expense:				
Property operating	118,288	31,502	(1,709)	148,081
Real estate taxes	53,324	14,280	3,450	71,054
Total rental expense	171,612	45,782	1,741	219,135
Consolidated NOI	<u>\$ 258,430</u>	<u>\$ 63,575</u>	<u>\$ (2,015)</u>	<u>\$ 319,990</u>

	Year Ended December 31, 2017			
	Commercial	Multifamily	Other	Total
	(In thousands)			
Rental revenue:				
Property rentals	\$ 351,517	\$ 86,439	\$ (1,331)	\$ 436,625
Tenant reimbursements	32,380	5,130	475	37,985
Total rental revenue	383,897	91,569	(856)	474,610
Rental expense:				
Property operating	97,701	24,623	(3,488)	118,836
Real estate taxes	50,546	11,030	4,858	66,434
Total rental expense	148,247	35,653	1,370	185,270
Consolidated NOI	<u>\$ 235,650</u>	<u>\$ 55,916</u>	<u>\$ (2,226)</u>	<u>\$ 289,340</u>

	Year Ended December 31, 2016			
	Commercial	Multifamily	Other	Total
	(In thousands)			
Rental revenue:				
Property rentals	\$ 323,133	\$ 63,401	\$ 15,061	\$ 401,595
Tenant reimbursements	33,361	3,454	846	37,661
Total rental revenue	356,494	66,855	15,907	439,256
Rental expense:				
Property operating	91,148	17,238	(8,082)	100,304
Real estate taxes	46,115	6,993	4,676	57,784
Total rental expense	137,263	24,231	(3,406)	158,088
Consolidated NOI	<u>\$ 219,231</u>	<u>\$ 42,624</u>	<u>\$ 19,313</u>	<u>\$ 281,168</u>

The following is a summary of certain balance sheet data by segment:

	<u>Commercial</u>	<u>Multifamily</u>	<u>Other</u>	<u>Total</u>
<u>December 31, 2018</u>	(In thousands)			
Real estate, at cost	\$ 3,634,472	\$ 1,656,974	\$ 501,288	\$ 5,792,734
Investments in and advances to unconsolidated real estate ventures	177,173	109,232	36,473	322,878
Total assets⁽¹⁾	3,707,255	1,528,177	761,853	5,997,285
<u>December 31, 2017</u>				
Real estate, at cost	\$ 4,023,544	\$ 1,480,812	\$ 513,148	\$ 6,017,504
Investments in and advances to unconsolidated real estate ventures	134,138	98,835	28,838	261,811
Total assets⁽¹⁾	3,612,947	1,403,452	1,055,408	6,071,807

⁽¹⁾ Includes assets held for sale. See Note 4 for additional information.

19. Commitments and Contingencies

Insurance

We maintain general liability insurance with limits of \$200.0 million per occurrence and in the aggregate, and property and rental value insurance coverage with limits of \$2.0 billion per occurrence, with sub-limits for certain perils such as floods and earthquakes on each of our properties. We also maintain coverage, through our wholly owned captive insurance subsidiary, for both terrorist acts and for nuclear, biological, chemical or radiological terrorism events with limits of \$2.0 billion per occurrence. These policies are partially reinsured by third-party insurance providers.

We will continue to monitor the state of the insurance market and the scope and costs of coverage for acts of terrorism. We cannot anticipate what coverage will be available on commercially reasonable terms in the future. We are responsible for deductibles and losses in excess of the insurance coverage, which could be material.

Our debt, consisting of mortgage loans secured by our properties, revolving credit facility and unsecured term loans contain customary covenants requiring adequate insurance coverage. Although we believe that we currently have adequate insurance coverage, we may not be able to obtain an equivalent amount of coverage at reasonable costs in the future. If lenders insist on greater coverage than we are able to obtain, it could adversely affect the ability to finance or refinance our properties.

Construction Commitments

As of December 31, 2018, we have construction in progress that will require an additional \$519.4 million to complete (\$440.9 million related to our consolidated entities and \$78.5 million related to our unconsolidated real estate ventures at our share), based on our current plans and estimates, which we anticipate will be primarily expended over the next two to three years. These capital expenditures are generally due as the work is performed, and we expect to finance them with debt proceeds, proceeds from asset recapitalizations and sales, and available cash.

Environmental Matters

Each of our properties has been subjected to varying degrees of environmental assessment at various times. The environmental assessments did not reveal any material environmental contamination that we believe would have a material adverse effect on our overall business, financial condition or results of operations, or that have not been anticipated and remediated during site redevelopment as required by law. Nevertheless, there can be no assurance that the identification of new areas of contamination, changes in the extent or known scope of contamination, the discovery of additional sites or changes in cleanup requirements would not result in significant cost to us. As noted in Note 10, environmental liabilities total \$17.9 million as of December 31, 2018 and primarily relate to a liability to remediate pre-existing environmental matters at Potomac Yard Land Bay H, which was acquired in December 2018.

Other

There are various legal actions against us in the ordinary course of business. In our opinion, the outcome of such matters will not have a material adverse effect on our financial condition, results of operations or cash flows.

From time to time, we (or ventures in which we have an ownership interest) have agreed, and may in the future agree with respect to unconsolidated real estate ventures, to (1) guarantee portions of the principal, interest and other amounts in connection with their borrowings, (2) provide customary environmental indemnifications and nonrecourse carve-outs (e.g., guarantees against fraud, misrepresentation and bankruptcy) in connection with their borrowings and (3) provide guarantees to lenders and other third parties for the completion of development projects. We customarily have agreements with our outside partners whereby the partners agree to reimburse the real estate venture or us for their share of any payments made under certain of these guarantees. Amounts that may be required to be paid in future periods in relation to budget overruns or operating losses that are also included in some of our guarantees are not estimable. Guarantees (excluding environmental) terminate either upon the satisfaction of specified circumstances or repayment of the underlying debt. At times, we have agreements with our outside partners whereby we agree to reimburse our partner for their share of any payments made by them under certain guarantees. As of December 31, 2018, we had no principal payment guarantees for our unconsolidated real estate ventures.

We also may guarantee portions of the principal, interest and other amounts in connection with the borrowings of our consolidated entities. As of December 31, 2018, the aggregate amount of principal payment guarantees was \$8.3 million for our consolidated entities.

As of December 31, 2018, we expect to fund additional capital to certain of our unconsolidated investments totaling approximately \$48.6 million, which we anticipate will be primarily expended over the next two to three years.

In connection with the Formation Transaction, we entered into an agreement with Vornado regarding tax matters (the "Tax Matters Agreement") that provides special rules that allocate tax liabilities if the distribution of JBG SMITH shares by Vornado, together with certain related transactions, is not tax-free. Under the Tax Matters Agreement, we may be required to indemnify Vornado against any taxes and related amounts and costs resulting from a violation by us of the Tax Matters Agreement, or from the taking of certain restricted actions by us.

We are obligated under non-cancelable operating leases including ground leases on certain of our properties through 2106. As of December 31, 2018, future minimum rental payments under non-cancelable operating leases, capital leases and lease assumption liabilities are as follows:

Year ending December 31,	Amount
	(In thousands)
2019	\$ 13,991
2020	13,710
2021	13,395
2022	12,554
2023	9,489
Thereafter	55,780
Total	<u>\$ 118,919</u>

During each of the three years in the period ended December 31, 2018, we recognized approximately \$11.2 million, \$4.7 million and \$2.1 million of rental expense related to our non-cancelable operating and capital leases.

20. Transactions with Vornado and Related Parties

Transactions with Vornado

As described in Note 1, the accompanying financial statements present the operations of the Vornado Included Assets as carved-out from the financial statements of Vornado for all periods prior to July 17, 2017.

Certain centralized corporate costs borne by Vornado for management and other services including, but not limited to, accounting, reporting, legal, tax, information technology and human resources have been allocated to the assets in the financial statements based on either actual costs incurred or a proportion of costs estimated to be applicable to the Vornado Included Assets based on

key metrics including total revenue. The total amounts allocated during the years ended December 31, 2017 and 2016 were \$13.0 million and \$20.7 million. These allocated amounts are included as a component of "General and administrative expense: Corporate and other" expenses on the statements of operations and do not necessarily reflect what actual costs would have been if the Vornado Included Assets were a separate standalone public company.

In connection with the Formation Transaction, we entered into an agreement with Vornado under which Vornado provides operational support for an initial period of up to two years. These services include information technology, financial reporting and payroll services. The charges for these services are based on an hourly or per transaction fee arrangement including reimbursement for overhead and out-of-pocket expenses. The total charges for the years ended December 31, 2018 and 2017 were \$3.6 million and \$2.2 million. Pursuant to an agreement, we are providing Vornado with leasing and property management services for certain of its assets that were not part of the Separation. The total revenue related to these services for the years ended December 31, 2018 and 2017 were \$2.1 million and \$779,000. We believe that the terms of both of these agreements are comparable to those that would have been negotiated based on market rates.

In connection with the Formation Transaction, we entered into a Tax Matters Agreement with Vornado. See Note 19 for additional information.

In August 2014, we completed a \$185.0 million financing of the Universal Buildings, a 687,000 square foot office complex located in Washington, D.C. In connection with this financing, pursuant to a note agreement dated August 12, 2014, we used a portion of the financing proceeds and made an \$86.0 million loan to Vornado at LIBOR plus 2.9% due August 2019. At the Separation, Vornado repaid the outstanding balance of the loan and related accrued interest. We recognized interest income of \$1.8 million and \$3.3 million during the years ended December 31, 2017 and 2016.

In connection with the development of The Bartlett, prior to the Separation, we entered into various note agreements with Vornado whereby we could borrow up to a maximum of \$170.0 million. Vornado contributed these note agreements along with accrued and unpaid interest to JBG SMITH at the Separation. We incurred interest expense of \$4.1 million during each of the years ended December 31, 2017 and 2016.

In June 2016, the \$115.0 million mortgage loan (including \$608,000 of accrued interest) secured by the Bowen Building, a 231,000 square foot office building located in Washington, D.C., was repaid with the proceeds of a \$115.6 million draw on our former parent's revolving credit facility. We repaid our former parent with amounts drawn under our revolving credit facility at the Combination. We incurred interest expense related to the mortgage loan of \$1.3 million and \$1.1 million during the years ended December 31, 2017 and 2016.

We have agreements that are terminable on the second anniversary of the Combination with Building Maintenance Services ("BMS"), a wholly owned subsidiary of Vornado, to supervise cleaning, engineering and security services at our properties. We paid BMS \$20.9 million, \$13.6 million and \$12.1 million during each of the three years in the period ended December 31, 2018, which are included in "Property operating expenses" in our statements of operations.

We entered into a consulting agreement with Mitchell Schear, a member of our Board of Trustees and formerly the president of Vornado's Washington, D.C. segment. The consulting agreement expired on December 31, 2017 and provided for the payment of consulting fees and expenses at the rate of \$169,400 per month for the 24 months following the Separation, including after the expiration of the consulting agreement. The amount due under this consulting agreement of \$4.1 million was expensed in connection with the Combination. As of December 31, 2018, the remaining liability is \$1.1 million. Additionally, in March 2017, Vornado amended Mr. Schear's employment agreement to provide for the payment of severance, bonus and post-employment services. A total of \$16.4 million was expensed in connection with the Separation during the year ended December 31, 2017.

Transactions with Real Estate Ventures

Our third-party asset management and real estate services business provides fee-based real estate services to third parties and the JBG Legacy Funds. We provide services for the benefit of the JBG Legacy Funds that own interests in the assets retained by the JBG Legacy Funds. In connection with the contribution of the JBG Assets to us, it was determined that the general partner and managing member interests in the JBG Legacy Funds that were held by former JBG executives (and who became members of our management team and/or Board of Trustees) would not be transferred to us and remain under the control of these individuals. In addition, certain members of our senior management and Board of Trustees have an ownership interest in the JBG Legacy Funds and own carried interests in each fund and in certain of our real estate ventures that entitles them to receive additional compensation if the fund or real estate venture achieves certain return thresholds. This third-party real estate services revenue, including reimbursements, from these JBG Legacy Funds for the years ended December 31, 2018 and 2017 was \$33.8 million and \$19.9 million. As of December 31, 2018 and 2017, we had receivables from the JBG Legacy Funds totaling \$3.6 million and \$3.1 million for third-party real estate services, including reimbursements.

We rent our corporate offices from an unconsolidated real estate venture and incurred expenses totaling \$4.9 million and \$2.3 million during the years ended December 31, 2018 and 2017, which is recorded in "General and administrative expense: Corporate and other" in our statements of operations.

Registration Rights Agreements

In connection with the Formation Transaction, we entered into a registration rights agreement with certain former investors in the JBG Legacy Funds that received our common shares in the Formation Transaction (the "Shares Registration Rights Agreement") and a separate registration rights agreement with the certain former investors in the JBG Legacy Funds and certain employees of JBG entities that received OP Units in the Formation Transaction (the "OP Units Registration Rights Agreement" and together with the Shares Registration Rights Agreement, the "Registration Rights Agreements"). Certain holders of common shares and OP Units who may benefit from the Registration Rights Agreements are members of our management team and/or Board of Trustees. Our obligations under the Shares Registration Rights Agreement were fully satisfied in January 2018.

21. Quarterly Financial Data (unaudited)

2018	First Quarter	Second Quarter ⁽¹⁾	Third Quarter ⁽²⁾	Fourth Quarter ⁽³⁾
(In thousands, except per share data)				
Total revenue	\$ 163,037	\$ 159,447	\$ 158,443	\$ 163,255
Net income (loss)	(4,786)	24,023	26,382	994
Net income (loss) attributable to common shareholders	(4,190)	20,574	22,830	710
Earnings (loss) per share:				
Basic	(0.04)	0.17	0.19	(0.01)
Diluted	(0.04)	0.17	0.19	(0.01)

⁽¹⁾ During the second quarter of 2018, we recognized a gain on the sale of real estate of \$33.4 million from the sale of Summit I and II and the Bowen Building, a reduction to the gain on bargain purchase of \$7.6 million related to the final adjustments to the fair value of certain asset acquired and liabilities assumed in the Formation Transaction and a loss on the extinguishment of debt of \$4.5 million.

⁽²⁾ During the third quarter of 2018, we recognized a gain of \$15.5 million related to the sale of our interest in a real estate venture that owned the Investment Building and a gain on the sale of real estate of \$11.9 million from the sale of Executive Tower.

⁽³⁾ During the fourth quarter of 2018, we recognized a gain of \$20.6 million from the sale of The Warner by our unconsolidated real estate venture with CPPIB, transaction and other costs of \$15.6 million related to expenses incurred in connection with the Formation Transaction (including transition services provided by our former parent, integration costs, and severance costs), costs related to the pursuit of Amazon HQ2, and costs related to other completed, potential and pursued transactions, and a gain on the sale of real estate of \$6.4 million, primarily from the sale of 1233 20th Street and the out-of-service portion of Falkland Chase - North.

2017	First Quarter	Second Quarter	Third Quarter ⁽¹⁾	Fourth Quarter ⁽²⁾
(In thousands, except per share data)				
Total revenue	\$ 116,272	\$ 118,020	\$ 152,350	\$ 156,371
Net income (loss)	6,318	11,341	(77,991)	(18,752)
Net income (loss) attributable to common shareholders	6,318	11,341	(69,831)	(16,418)
Earnings (loss) per share:				
Basic	0.06	0.11	(0.61)	(0.15)
Diluted	0.06	0.11	(0.61)	(0.15)

⁽¹⁾ During the third quarter of 2017, we recognized transaction and other costs of \$104.1 million, a gain on bargain purchase of \$27.8 million and share-based compensation expense of \$14.4 million in connection with the completion of the Formation Transaction.

⁽²⁾ During the fourth quarter of 2017, we recognized share-based compensation expense of \$14.8 million and transaction and other costs of \$12.6 million in connection with the completion of the Formation Transaction in the third quarter of 2017. Additionally, we recognized a reduction to the gain on bargain purchase of \$3.4 million related to adjustments to the fair value of certain assets acquired and liabilities assumed in the Formation Transaction. See Note 3 for additional information.

22. Subsequent Event

In 2019, we issued an additional 442,395 LTIP Units and 477,640 Performance-Based LTIP Units to management and employees with an estimated aggregate fair value of \$24.5 million.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of December 31, 2018, our disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over our financial reporting (as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. Our internal control over financial reporting includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of our assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisitions, use or disposition of our assets that could have a material effect on our financial statements.

As of December 31, 2018, management conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2018.

Deloitte & Touche LLP, an independent registered public accounting firm, has audited our financial statements and has issued a report on the effectiveness of our internal control over financial reporting, which is included herein.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Trustees of JBG SMITH Properties

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of JBG SMITH Properties and subsidiaries (the "Company") as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2018, of the Company and our report dated February 26, 2019, expressed an unqualified opinion on those financial statements and financial statement schedules.

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/ Deloitte & Touche LLP
McLean, Virginia
February 26, 2019

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information regarding trustees is incorporated herein by reference from the section entitled "Proposal One: Election of Trustees—Nominees for Election as Trustees" in our definitive Proxy Statement (the "2019 Proxy Statement") to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, for our 2019 Annual Meeting of Shareholders to be held on May 2, 2019. The 2019 Proxy Statement will be filed within 120 days after the end of our fiscal year ended December 31, 2018.

ITEM 11. EXECUTIVE COMPENSATION

The information included under the following captions in our 2019 Proxy Statement is incorporated herein by reference: "Compensation Discussion and Analysis," "Compensation Committee Report," "Compensation of Executive Officers," "Corporate Governance and Board Matters—Compensation of Trustees" and "Corporate Governance and Board Matters—Compensation Committee Interlocks and Insider Participation."

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

Information regarding security ownership of certain beneficial owners and management is incorporated herein by reference from the section entitled "Security Ownership of Certain Beneficial Owners and Management" and "Compensation of Executive Officers—Equity Compensation Plan Information" in our 2019 Proxy Statement.

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

The information regarding transactions with related persons and trustee independence is incorporated herein by reference from the sections entitled "Certain Relationships and Related Party Transactions" and "Corporate Governance and Board Matters—Corporate Governance Profile" in the Company's 2019 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information regarding principal auditor fees and services and the audit committee's pre-approval policies are incorporated herein by reference from the sections entitled "Proposal Four: Ratification of the Appointment of Independent Registered Public Accounting Firm—Principal Accountant Fees and Services" and "Proposal Four: Ratification of the Appointment of Independent Registered Public Accounting Firm—Pre-Approval Policies and Procedures" in our 2019 Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following consolidated and combined information is included in this Form 10-K:

(1) Financial Statements

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2018 and 2017

Consolidated and Combined Statements of Operations for the years ended December 31, 2018, 2017 and 2016

Consolidated and Combined Statements of Comprehensive Income (Loss) for the years ended December 31, 2018, 2017 and 2016

Consolidated and Combined Statements of Equity for the years ended December 31, 2018, 2017 and 2016

Consolidated and Combined Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016

Notes to Consolidated and Combined Financial Statements

These financial statements are set forth in Item 8 of this report and are hereby incorporated by reference.

(2) Financial Statement Schedules

	Page
Schedule II - Valuation and Qualifying Accounts	118
Schedule III - Real Estate Investments and Accumulated Depreciation	119

Schedules other than those listed above are omitted because they are not applicable or the information required is included in the financial statements or the notes thereto.

SCHEDULE II
JBG SMITH PROPERTIES
VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Year	Additions Charged Against Operations	Adjustments to Valuation Accounts	Uncollectible Accounts Written-off	Balance at End of Year
	(In thousands)				
Allowance for doubtful accounts ⁽¹⁾ for year ended December 31:					
2018	\$ 6,285	\$ 3,298	\$ —	\$ (1,989)	\$ 7,594
2017	\$ 4,526	\$ 3,807	\$ —	\$ (2,048)	\$ 6,285
2016	\$ 4,431	\$ 751	\$ —	\$ (656)	\$ 4,526

⁽¹⁾ Includes allowance for doubtful accounts related to tenant and other receivables and deferred rent receivable.

SCHEDULE III
JBG SMITH PROPERTIES
REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2018

Description	Initial Cost to Company				Gross Amounts at Which Carried at Close of Period				Accumulated Depreciation and Amortization	Date of Construction ⁽³⁾	Date Acquired
	Encumbrances ⁽¹⁾	Land and Improvements	Buildings and Improvements	Costs Capitalized Subsequent to Acquisition ⁽²⁾	Land and Improvements	Buildings and Improvements	Total				
Commercial Operating Assets											
Universal Buildings	\$ 182,467	\$ 69,393	\$ 143,320	\$ 23,829	\$ 68,612	\$ 167,930	\$ 236,542	\$ 53,606	1956	2007	
2101 L Street	137,453	32,815	51,642	88,181	39,768	132,870	172,638	43,414	1975	2003	
1700 M Street	—	34,178	46,938	(25,937)	55,179	—	55,179	—		2002, 2006	
1730 M Street	47,500	10,095	17,541	15,625	10,687	32,574	43,261	13,021	1964	2002	
1600 K Street	—	19,870	10,308	364	19,870	10,672	30,542	1,280	1950	2017	
Courthouse Plaza 1 and 2	—	—	105,475	50,652	—	156,127	156,127	64,721	1989	2002	
2121 Crystal Drive	136,728	21,503	87,329	53,027	22,071	139,788	161,859	70,404	1985	2002	
2345 Crystal Drive	—	23,126	93,918	41,679	23,683	135,040	158,723	57,974	1988	2002	
2231 Crystal Drive	—	20,611	83,705	21,694	21,132	104,878	126,010	42,194	1987	2002	
1550 Crystal Drive	—	17,988	70,525	19,854	17,996	90,371	108,367	38,157	1980	2002	
RTC - West	88,854	30,326	134,108	5,819	30,425	139,828	170,253	9,969	1988	2017	
RTC - West Retail	6,889	2,894	—	8,338	2,894	8,338	11,232	407	2017	2017	
2011 Crystal Drive	—	18,940	76,921	38,777	18,991	115,647	134,638	48,727	1984	2002	
2451 Crystal Drive	—	16,755	68,047	28,915	17,337	96,380	113,717	38,652	1990	2002	
1235 S. Clark Street	78,000	15,826	56,090	28,656	16,293	84,279	100,572	33,875	1981	2002	
241 18th Street S.	—	13,867	54,169	32,344	16,812	83,568	100,380	33,725	1977	2002	
251 18th Street S.	34,294	12,305	49,360	56,515	15,729	102,451	118,180	39,602	1975	2002	
1215 S. Clark Street	—	13,636	48,380	54,601	14,017	102,600	116,617	31,987	1983	2002	
201 12th Street S.	32,863	14,766	52,750	23,357	15,126	75,747	90,873	30,413	1987	2002	
800 North Glebe Road	107,500	28,168	140,983	2,307	28,168	143,290	171,458	8,790	1982	2017	
2200 Crystal Drive	—	13,104	30,050	34,732	13,454	64,432	77,886	19,870	1968	2002	
1901 South Bell Street	—	11,669	36,918	21,887	12,009	58,465	70,474	26,342	1968	2002	
1225 S. Clark Street	—	11,176	43,495	20,292	11,490	63,473	74,963	25,616	1968	2002	
Crystal City Marriott	—	8,000	47,191	15,733	8,224	62,700	70,924	22,162	1968	2004	
2100 Crystal Drive	—	10,287	23,590	31,413	10,588	54,702	65,290	23,839	1968	2002	
200 12th Street S.	16,507	8,016	30,552	20,211	8,241	50,538	58,779	20,974	1985	2002	
2001 Jefferson Davis Highway	—	7,300	16,746	11,870	7,481	28,435	35,916	11,411	1967	2002	
1800 South Bell Street	—	—	28,702	7,368	212	35,858	36,070	15,602	1969	2002	
Crystal City Shops at 2100	—	4,059	9,309	5,175	4,049	14,494	18,543	6,098	1968	2002	
Crystal Drive Retail	—	—	20,465	4,461	55	24,871	24,926	11,813	2003	2004	
Vienna Retail	—	1,763	641	41	1,763	682	2,445	230	1981	2005	
7200 Wisconsin Avenue	—	34,683	92,059	4,712	34,683	96,771	131,454	5,373	1986	2017	
One Democracy Plaza	—	—	33,628	7,873	—	41,501	41,501	23,617	1987	2002	
4749 Bethesda Avenue Retail	—	2,480	11,830	26	2,872	11,464	14,336	257	2016	2017	
CEB Tower at Central Place	234,000	74,420	230,280	54,714	74,877	284,537	359,414	8,956	2018	2017	
Commercial Construction Assets											
1770 Crystal Drive	—	10,771	44,276	(9,067)	—	45,980	45,980	1,674	1974-1980	2002	
Central District Retail	—	4,194	—	16,388	—	20,582	20,582	5		2002	
4747 Bethesda Avenue	—	29,030	10,040	68,070	—	107,140	107,140	—		2017	
Multifamily Operating Assets											
Fort Totten Square	73,600	24,390	90,404	826	24,390	91,230	115,620	5,433	2015	2017	
WestEnd25	97,881	67,049	5,039	110,465	68,210	114,343	182,553	27,229	2009	2007	
North End Retail	—	5,847	9,333	(291)	5,847	9,042	14,889	481	2015	2017	
RiverHouse Apartments	307,710	118,421	125,078	84,970	138,763	189,706	328,469	63,413	1960	2007	
The Bartlett	220,000	41,687	—	224,948	41,867	224,768	266,635	15,988	2016	2007	
220 20th Street	—	8,434	19,340	100,624	8,761	119,637	128,398	31,277	2009	2017	
2221 South Clark Street	—	7,405	16,981	41,394	7,542	58,238	65,780	6,558	1964	2002	

Description	Initial Cost to Company				Gross Amounts at Which Carried at Close of Period			Accumulated Depreciation and Amortization	Date of Construction ⁽³⁾	Date Acquired
	Encumbrances ⁽¹⁾	Land and Improvements	Buildings and Improvements	Costs Capitalized Subsequent to Acquisition ⁽²⁾	Land and Improvements	Buildings and Improvements	Total			
Falkland Chase - South & West	41,008	18,530	44,232	570	18,530	44,802	63,332	2,941	1938	2017
Falkland Chase - North	—	9,810	22,706	(2,239)	8,992	21,285	30,277	1,429	1938	2017
1221 Van Street	—	27,386	63,775	25,293	28,182	88,272	116,454	3,613		2017
Multifamily Construction Assets										
West Half	—	45,668	17,902	96,284	—	159,854	159,854	—		2017
965 Florida Avenue	—	14,306	—	42,045	—	56,351	56,351	—		2017
Atlantic Plumbing C	—	47,678	13,952	66,708	—	128,338	128,338	—		2017
Future Development Assets										
1900 Crystal Drive	—	16,811	53,187	(25,598)	—	44,400	44,400	243	1968	2002
Capitol Point - North	—	32,730	—	18,374	50,829	275	51,104	—		2017
Metropolitan Park 6-8	—	65,259	1,326	27,777	82,898	11,464	94,362	31		2007
Pen Place - Land Parcel	—	104,473	55	(30,618)	61,970	11,940	73,910	6		2007
Potomac Yard Land Bay G - Parcels A - F	—	20,318	—	7,955	26,914	1,359	28,273	1		
Potomac Yard Land Bay H	—	38,369	—	—	38,369	—	38,369	—		
RTC - West Land	1,398	29,956	—	1,792	29,956	1,792	31,748	—		2017
Square 649	—	15,550	6,451	(2,183)	12,672	7,146	19,818	427		2005
Other Future Development Assets	—	71,686	15,286	14,629	72,394	29,207	101,601	330		
Corporate										
Corporate	300,000	—	—	18,408	—	18,408	18,408	7,718		2017
	<u>2,144,652</u>	<u>1,479,777</u>	<u>2,606,328</u>	<u>1,706,629</u>	<u>1,371,874</u>	<u>4,420,860</u>	<u>5,792,734</u>	<u>1,051,875</u>		
Held for sale:										
Commerce Executive ⁽⁴⁾	—	13,401	58,705	31,113	13,140	90,079	103,219	34,969		2017
	<u>\$ 2,144,652</u>	<u>\$ 1,493,178</u>	<u>\$ 2,665,033</u>	<u>\$ 1,737,742</u>	<u>\$ 1,385,014</u>	<u>\$ 4,510,939</u>	<u>\$ 5,895,953</u>	<u>\$ 1,086,844</u>		

Note: Depreciation of the buildings and improvements is calculated over lives ranging from the life of the lease to 40 years. The net basis of our assets and liabilities for tax reporting purposes is approximately \$114.0 million lower than the amounts reported in our balance sheet as of December 31, 2018.

(1) Represents the contractual debt obligations.

(2) Includes asset impairments recognized, amounts written off in connection with redevelopment activities, partial sale of assets and the reclassification of the net book value of assets to construction in progress.

(3) Date of original construction, many assets have had substantial renovation or additional construction. See "Costs Capitalized Subsequent to Acquisition" column.

(4) In February 2019, we sold Commerce Executive for \$115.0 million.

The following is a reconciliation of real estate and accumulated depreciation:

	Year Ended December 31,		
	2018	2017	2016
	(In thousands)		
Real Estate:			
Balance at beginning of the year	\$ 6,025,797	\$ 4,155,391	\$ 4,038,206
Additions during the year:			
Land and improvements	19,431	428,702	—
Buildings and improvements	282,988	1,489,409	217,261
Held for sale	94,926	8,293	—
Less: Assets sold or written-off	(527,189)	(55,998)	(100,076)
Balance at end of the year	<u>\$ 5,895,953</u>	<u>\$ 6,025,797</u>	<u>\$ 4,155,391</u>
Accumulated Depreciation:			
Balance at beginning of period	\$ 1,011,330	\$ 930,769	\$ 908,233
Additions during the year:			
Additions charged to operating expenses	116,377	136,559	122,612
Held for sale	34,969	—	—
Less: Accumulated depreciation on assets sold or written-off	(75,832)	(55,998)	(100,076)
Balance at end of period	<u>\$ 1,086,844</u>	<u>\$ 1,011,330</u>	<u>\$ 930,769</u>

(3) Exhibit Index

<u>Exhibits</u>	<u>Description</u>
2.1	<u>Master Transaction Agreement, dated as of October 31, 2016, by and among Vornado Realty Trust, Vornado Realty L.P., JBG Properties, Inc., JBG/Operating Partners, L.P., certain affiliates of JBG Properties Inc. and JBG/Operating Partners set forth on Schedule A thereto, JBG SMITH Properties and JBG SMITH Properties LP (incorporated by reference to Exhibit 2.1 to our Registration Statement on Form 10, filed on June 12, 2017).</u>
2.2	<u>Amendment to Master Transaction Agreement, dated as of July 17, 2017, by and among Vornado Realty Trust, Vornado Realty L.P., JBG Properties, Inc., JBG/Operating Partners, L.P., certain affiliates of JBG Properties Inc. and JBG/Operating Partners set forth on Schedule A thereto, JBG SMITH Properties and JBG SMITH Properties LP (incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K, filed on July 21, 2017).</u>
2.3	<u>Agreement and Plan of Merger, dated as of July 17, 2017, by and between JBG/Fund VI Transferred, L.L.C. and JBGS/Fund VI OP Mergerco, L.L.C. (incorporated by reference to Exhibit 2.3 to our Current Report on Form 8-K, filed on July 21, 2017).</u>
2.4	<u>Agreement and Plan of Merger, dated as of July 17, 2017, by and between JBG/Fund VII Transferred, L.L.C. and JBGS/Fund VII OP Mergerco, L.L.C. (incorporated by reference to Exhibit 2.4 to our Current Report on Form 8-K, filed on July 21, 2017).</u>
2.5	<u>Agreement and Plan of Merger, dated as of July 17, 2017, by and between JBG/Fund IX Transferred, L.L.C. and JBGS/Fund IX OP Mergerco, L.L.C. (incorporated by reference to Exhibit 2.5 to our Current Report on Form 8-K, filed on July 21, 2017).</u>
2.6	<u>Contribution and Assignment Agreement, dated as of July 18, 2017, by and between JBG SMITH Properties LP and JBG/Fund VIII Legacy, L.L.C. (incorporated by reference to Exhibit 2.6 to our Current Report on Form 8-K, filed on July 21, 2017).</u>
2.7	<u>Contribution and Assignment Agreement, dated as of July 18, 2017, by and between JBG SMITH Properties LP and JBG/UDM Legacy, L.L.C. (incorporated by reference to Exhibit 2.7 to our Current Report on Form 8-K, filed on July 21, 2017).</u>
2.8	<u>Agreement and Plan of Merger, dated as of July 17, 2017, by and between JBG/Operating Partners, L.P. and JBGS/OP Mergerco, L.L.C. (incorporated by reference to Exhibit 2.8 to our Current Report on Form 8-K, filed on July 21, 2017).</u>
2.9	<u>Contribution and Assignment Agreement, dated as of July 18, 2017, by and between JBG Properties, Inc. and JBG SMITH Properties LP (incorporated by reference to Exhibit 2.9 to our Current Report on Form 8-K, filed on July 21, 2017).</u>
2.10	<u>Separation and Distribution Agreement, dated as of July 17, 2017, by and among Vornado Realty Trust, Vornado Realty L.P., JBG SMITH Properties and JBG SMITH Properties LP (incorporated by reference to Exhibit 2.2 to our Current Report on Form 8-K, filed on July 21, 2017).</u>
3.1	<u>Declaration of Trust of JBG SMITH Properties, as amended and restated (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K, filed on July 21, 2017).</u>
3.2	<u>Articles Supplementary to Declaration of Trust of JBG SMITH Properties (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K, filed on March 6, 2018).</u>
3.3	<u>Articles of Amendment to Declaration of Trust of JBG SMITH Properties (incorporated by reference to Exhibit 3.1 to our current report on Form 8-K, filed on May 3, 2018).</u>
3.4	<u>Amended and Restated Bylaws of JBG SMITH Properties (incorporated by reference to Exhibit 3.3 to our Annual Report on Form 10-K, filed on March 12, 2018).</u>
10.1	<u>First Amended and Restated Limited Partnership Agreement of JBG SMITH Properties LP, dated as of July 17, 2017 (incorporated by reference to Exhibit 10.1 to our Annual Report on Form 10-K, filed on March 12, 2018).</u>
10.2	<u>Tax Matters Agreement, dated as of July 17, 2017, by and between Vornado Realty Trust and JBG SMITH Properties (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, filed on July 21, 2017).</u>
10.3	<u>Employee Matters Agreement, dated as of July 17, 2017, by and between Vornado Realty Trust, Vornado Realty L.P., JBG SMITH Properties and JBG SMITH Properties LP (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K, filed on July 21, 2017).</u>
10.4	<u>Transition Services Agreement, dated as of July 17, 2017, by and between Vornado Realty Trust and JBG SMITH Properties (incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K, filed on July 21, 2017).</u>

<u>Exhibits</u>	<u>Description</u>
10.5	<u>Credit Agreement, dated as of July 18, 2017, by and among JBG SMITH Properties LP, as Borrower, the financial institutions party thereto as lenders, and Wells Fargo Bank, National Association, as Administrative Agent (incorporated by reference to Exhibit 10.4 to our Current Report on Form 8-K, filed on July 21, 2017).</u>
10.6	<u>Registration Rights Agreement, dated as of July 18, 2017, by and among JBG SMITH Properties and the holders listed on Schedule I thereto (for holders of common shares of JBG SMITH Properties received in the combination) (incorporated by reference to Exhibit 10.5 to our Current Report on Form 8-K, filed on July 21, 2017).</u>
10.7	<u>Registration Rights Agreement, dated as of July 18, 2017, by and among JBG SMITH Properties and the holders listed on Schedule I thereto (for holders of OP Units of JBG SMITH LP received in the combination) (incorporated by reference to Exhibit 10.6 to our Current Report on Form 8-K, filed on July 21, 2017).</u>
10.8†	<u>Form of JBG SMITH Properties Unit Issuance Agreement (incorporated by reference to Exhibit 10.7 to our Current Report on Form 8-K, filed on July 21, 2017).</u>
10.9†	<u>JBG SMITH Properties Non-Employee Trustee Unit Issuance Agreement, dated July 18, 2017, by and among, JBG SMITH Properties, JBG SMITH Properties LP, Michael J. Glosserman and Glosserman Family JBG Operating, L.L.C. (incorporated by reference to Exhibit 10.8 to our Current Report on Form 8-K, filed on July 21, 2017).</u>
10.10†	<u>Amended and Restated Employment Agreement, dated as of June 16, 2017, by and between JBG SMITH Properties and W. Matthew Kelly (incorporated by reference to Exhibit 10.5 to our Registration Statement on Form 10, filed on June 21, 2017).</u>
10.11†	<u>Amended and Restated Employment Agreement, dated as of June 16, 2017, by and between JBG SMITH Properties and David P. Paul (incorporated by reference to Exhibit 10.7 to our Registration Statement on Form 10, filed on June 21, 2017).</u>
10.12†	<u>Amended and Restated Employment Agreement, dated as of June 16, 2017, by and between JBG SMITH Properties and Robert A. Stewart (incorporated by reference to Exhibit 10.10 to our Registration Statement on Form 10, filed on June 21, 2017).</u>
10.13†	<u>Employment Agreement, dated as of July 17, 2017, by and between JBG SMITH Properties and Stephen W. Theriot (incorporated by reference to Exhibit 10.11 to our Current Report on Form 8-K, filed on July 21, 2017).</u>
10.14†**	<u>Employment Agreement, dated as of February 21, 2019, by and between JBG SMITH Properties and Madumita Moina Banerjee.</u>
10.15†	<u>Form of Indemnification Agreement between JBG SMITH Properties and each of its trustees and executive officers (incorporated by reference to Exhibit 10.12 to our Current Report on Form 8-K, filed on July 21, 2017).</u>
10.16†	<u>Formation Unit Grant Letter, dated as of October 31, 2016, by and between JBG SMITH Properties and Steven Roth (incorporated by reference to Exhibit 10.15 to our Registration Statement on Form 10, filed on January 24, 2017).</u>
10.17†	<u>Consulting Agreement, dated as of March 10, 2017, by and between JBG SMITH Properties and Mitchell Schear (incorporated by reference to Exhibit 10.16 to our Registration Statement on Form 10, filed on June 12, 2017).</u>
10.18†	<u>JBG SMITH Properties 2017 Employee Share Purchase Plan (incorporated by reference to Exhibit 10.9 to our Current Report on Form 8-K, filed on July 21, 2017).</u>
10.19	<u>Amendment No. 1 to the JBG SMITH Properties 2017 Employee Share Purchase Plan, effective January 1, 2018 (incorporated by reference to Exhibit 10.20 to our Annual Report on Form 10-K, filed on March 12, 2018).</u>
10.20†	<u>JBG SMITH Properties 2017 Omnibus Share Plan (incorporated by reference to Exhibit 10.10 to our Current Report on Form 8-K, filed on July 21, 2017).</u>
10.21†	<u>Form of JBG SMITH Properties Formation Unit Agreement (incorporated by reference to Exhibit 10.18 to our Registration Statement on Form 10, filed on June 12, 2017).</u>
10.22†	<u>Form of JBG SMITH Properties Formation Unit Agreement for Non-Employee Trustees (incorporated by reference to Exhibit 10.19 to our Registration Statement on Form 10, filed on June 12, 2017).</u>
10.23†	<u>Form of JBG SMITH Properties Restricted LTIP Unit Agreement (incorporated by reference to Exhibit 10.20 to our Registration Statement on Form 10, filed on June 12, 2017).</u>
10.24†	<u>Form of JBG SMITH Properties Performance LTIP Unit Agreement (incorporated by reference to Exhibit 10.21 to our Registration Statement on Form 10, filed on June 12, 2017).</u>

Exhibits	Description
10.25	<u>Form of 2018 Performance LTIP Unit Agreement (incorporated by reference to Exhibit 10.26 to our Annual Report on Form 10-K, filed on March 12, 2018).</u>
10.26†	<u>Form of JBG SMITH Properties Non-Employee Trustee Restricted LTIP Unit Agreement (incorporated by reference to Exhibit 10.22 to our Registration Statement on Form 10, filed on June 21, 2017).</u>
10.27†	<u>Form of JBG SMITH Properties Non-Employee Trustee Restricted Stock Agreement (incorporated by reference to Exhibit 10.23 to our Registration Statement on Form 10, filed on June 21, 2017).</u>
10.28†	<u>Form of JBG SMITH Properties Non-Employee Trustee Unit Issuance Agreement (incorporated by reference to Exhibit 10.24 to our Registration Statement on Form 10, filed on June 21, 2017).</u>
10.29	<u>Side Letter to Tax Matters Agreement, dated as of August 13, 2018, by and between Vornado Realty Trust and JBG SMITH Properties (incorporated by reference to Exhibit 10.1 to our Current Report on Form 10-Q filed on November 7, 2018.)</u>
21.1**	<u>List of Subsidiaries of the Registrant</u>
23.1**	<u>Consent of Independent Registered Public Accounting Firm</u>
31.1**	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended and Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2**	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended and Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1**	<u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended and 18 U.S.C 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Extension Calculation Linkbase
101.LAB	XBRL Extension Labels Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase

** Filed herewith.

† Denotes a management contract or compensatory plan, contract or arrangement.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements 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.

JBG SMITH Properties

Date: February 26, 2019

/s/ Stephen W. Theriot

Stephen W. Theriot

Chief Financial Officer

(Principal Financial and Accounting 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
<u>/s/ Steven Roth</u> Steven Roth	Chairman of the Board	February 26, 2019
<u>/s/ Robert Stewart</u> Robert Stewart	Executive Vice Chairman	February 26, 2019
<u>/s/ W. Matthew Kelly</u> W. Matthew Kelly	Chief Executive Officer	February 26, 2019
<u>/s/ Stephen W. Theriot</u> Stephen W. Theriot	Chief Financial Officer (Principal Financial and Accounting Officer)	February 26, 2019
<u>/s/ Scott Estes</u> Scott Estes	Trustee	February 26, 2019
<u>/s/ Alan Forman</u> Alan Forman	Trustee	February 26, 2019
<u>/s/ Michael J. Glosserman</u> Michael J. Glosserman	Trustee	February 26, 2019
<u>/s/ Charles E. Haldeman, Jr.</u> Charles E. Haldeman, Jr.	Trustee	February 26, 2019
<u>/s/ Carol Melton</u> Carol Melton	Trustee	February 26, 2019
<u>/s/ William Mulrow</u> William Mulrow	Trustee	February 26, 2019
<u>/s/ Mitchell N. Schear</u> Mitchell N. Schear	Trustee	February 26, 2019
<u>/s/ Ellen Shuman</u> Ellen Shuman	Trustee	February 26, 2019
<u>/s/ John F. Wood</u> John F. Wood	Trustee	February 26, 2019



Illustrative Dining in the Park



Illustrative New Metro Station Entrance on Crystal Drive



L'Enfant Plaza Office – Southeast



1221 Van Street Kitchen



JBG SMITH

4445 Willard Avenue, Suite 400
Chevy Chase, MD 20815

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