DUKE REALTY CORP
Form 10-Q
August 03, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
OR
o 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: 1-9044 (Duke Realty Corporation) 0-20625 (Duke Realty Limited Partnership)
DUKE REALTY CORPORATION
DUKE REALTY LIMITED PARTNERSHIP
(Exact Name of Registrant as Specified in Its Charter)

Indiana (Duke Realty Corporation)	35-1740409 (Duke Realty Corporation)
Indiana (Duke Realty Limited Partnership)	35-1898425 (Duke Realty Limited Partnership)
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
600 East 96th Street, Suite 100 Indianapolis, Indiana	46240
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: (317) 808-6000
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.
Duke Realty Corporation Yes x No o Duke Realty Limited Partnership Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Duke Realty Corporation Yes x No o Duke Realty Limited Partnership Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Duke Realty Corporation:
Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o
Duke Realty Limited Partnership:
Large accelerated filer o Accelerated filer o Non-accelerated filer x Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):
Duke Realty Corporation Yes o No x Duke Realty Limited Partnership Yes o No x
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding Common Shares of Duke Realty Corporation at August 1, 2016
Common Stock, $.01 par value per share	350,757,501

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended June 30, 2016 of both Duke Realty Corporation and Duke Realty Limited Partnership. Unless stated otherwise or the context otherwise requires, references to "Duke Realty Corporation" or the "General Partner" mean Duke Realty Corporation and its consolidated subsidiaries; and references to the "Partnership" mean Duke Realty Limited Partnership and its consolidated subsidiaries. The terms the "Company," "we," "us" and "our" refer to the General Partner and the Partnership, collectively, and those entities owned or controlled by the General Partner and/or the Partnership.

Duke Realty Corporation is a self-administered and self-managed real estate investment trust ("REIT") and is the sole general partner of the Partnership, owning 99.0% of the common partnership interests of the Partnership ("General Partner Units") as of June 30, 2016. The remaining 1.0% of the common partnership interests ("Limited Partner Units" and, together with the General Partner Units, the "Common Units") are owned by limited partners. As the sole general partner of the Partnership, the General Partner has full, exclusive and complete responsibility and discretion in the day-to-day management and control of the Partnership.

The General Partner and the Partnership are operated as one enterprise. The management of the General Partner consists of the same members as the management of the Partnership. As the sole general partner with control of the Partnership, the General Partner consolidates the Partnership for financial reporting purposes, and the General Partner does not have any significant assets other than its investment in the Partnership. Therefore, the assets and liabilities of the General Partner and the Partnership are substantially the same.

We believe combining the quarterly reports on Form 10-Q of the General Partner and the Partnership into this single report results in the following benefits:

- enhances investors' understanding of the General Partner and the Partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;
- eliminates duplicative disclosure and provides a more streamlined and readable presentation of information since a substantial portion of the Company's disclosure applies to both the General Partner and the Partnership; and
- creates time and cost efficiencies through the preparation of one combined report instead of two separate reports.

We believe it is important to understand the few differences between the General Partner and the Partnership in the context of how we operate as an interrelated consolidated company. The General Partner's only material asset is its ownership of partnership interests in the Partnership. As a result, the General Partner does not conduct business itself, other than acting as the sole general partner of the Partnership and issuing public equity from time to time. The General Partner does not issue any indebtedness, but does guarantee some of the unsecured debt of the Partnership. The Partnership holds substantially all the assets of the business, directly or indirectly, and holds the ownership interests related to certain of the Company's investments. The Partnership conducts the operations of the business and has no publicly traded equity. Except for net proceeds from equity issuances by the General Partner, which are contributed to the Partnership in exchange for General Partner Units or Preferred Units, the Partnership generates the capital required by the business through its operations, its incurrence of indebtedness and the issuance of Limited Partner Units to third parties.

Noncontrolling interests, shareholders' equity and partners' capital are the main areas of difference between the consolidated financial statements of the General Partner and those of the Partnership. The noncontrolling interests in the Partnership's financial statements include the interests in consolidated investees not wholly owned by the Partnership. The noncontrolling interests in the General Partner's financial statements include the same noncontrolling interests at the Partnership level, as well as the common limited partnership interests in the Partnership, which are accounted for as partners' capital by the Partnership.

In order to highlight the differences between the General Partner and the Partnership, there are separate sections in this report, as applicable, that separately discuss the General Partner and the Partnership, including separate financial statements and separate Exhibit 31 and 32 certifications. In the sections that combine disclosure of the General Partner and the Partnership, this report refers to actions or holdings as being actions or holdings of the collective Company.

DUKE REALTY CORPORATION/DUKE REALTY LIMITED PARTNERSHIP
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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
DUKE REALTY CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
(in thousands, except per share amounts)

	June 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Real estate investments:		
Land and improvements	$1,514,975	$1,391,763
Buildings and tenant improvements	5,008,656	4,740,837
Construction in progress	213,962	321,062
Investments in and advances to unconsolidated companies	289,299	268,390
Undeveloped land	307,627	383,045
	7,334,519	7,105,097
Accumulated depreciation	(1,290,102)	(1,192,425)
Net real estate investments	6,044,417	5,912,672
Real estate investments and other assets held-for-sale	3,462	45,801
Cash and cash equivalents	91,700	22,533
Accounts receivable, net of allowance of $1,170 and $1,113	21,439	18,846
Straight-line rent receivable, net of allowance of $6,243 and $6,155	120,096	116,781
Receivables on construction contracts, including retentions	13,437	16,459
Deferred leasing and other costs, net of accumulated amortization of $257,712 and $245,426	345,472	346,374
Escrow deposits and other assets	225,002	416,049
	$6,865,025	$6,895,515
LIABILITIES AND EQUITY		
Indebtedness:		
Secured debt, net of deferred financing costs of $1,161 and $1,552	$389,679	$738,444
Unsecured debt, net of deferred financing costs of $24,427 and $20,046	2,808,102	2,510,697
Unsecured line of credit	—	71,000
	3,197,781	3,320,141
Liabilities related to real estate investments held-for-sale	645	972
Construction payables and amounts due subcontractors, including retentions	46,100	54,921
Accrued real estate taxes	78,117	71,617
Accrued interest	31,837	34,447
Other accrued expenses	34,338	61,827
Other liabilities	94,391	106,283
Tenant security deposits and prepaid rents	41,607	40,506
Total liabilities	3,524,816	3,690,714
Shareholders' equity:		
Common shares ($.01 par value); 600,000 shares authorized; 350,273 and 345,285 shares issued and outstanding	3,503	3,453
Additional paid-in capital	5,068,217	4,961,923
Accumulated other comprehensive income	1,216	1,806

Distributions in excess of net income	(1,758,547)	(1,785,250)
Total shareholders' equity	3,314,389	3,181,932
Noncontrolling interests	25,820	22,869
Total equity	3,340,209	3,204,801
	$6,865,025	$6,895,515

See accompanying Notes to Consolidated Financial Statements

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DUKE REALTY CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations and Comprehensive Income
For the three and six months ended June 30,
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	2016	2015	2016	2015
Revenues:				
Rental and related revenue	$200,520	$201,996	$402,323	$416,611
General contractor and service fee revenue	26,044	23,901	49,195	76,722
	226,564	225,897	451,518	493,333
Expenses:				
Rental expenses	25,729	30,094	55,008	66,218
Real estate taxes	29,948	27,747	59,575	58,526
General contractor and other services expenses	22,228	21,738	43,148	68,762
Depreciation and amortization	80,161	78,334	157,959	160,237
	158,066	157,913	315,690	353,743
Other operating activities:				
Equity in earnings of unconsolidated companies	3,534	15,123	25,394	21,369
Gain on dissolution of unconsolidated company	30,697	—	30,697	—
Promote income	24,087	—	24,087	—
Gain on sale of properties	39,314	107,410	54,891	130,894
Gain on land sales	707	17,012	837	22,437
Other operating expenses	(836)	(1,555)	(2,072)	(3,112)
Impairment charges	(5,651)	(5,470)	(12,056)	(5,470)
General and administrative expenses	(11,584)	(19,238)	(29,682)	(36,242)
	80,268	113,282	92,096	129,876
Operating income	148,766	181,266	227,924	269,466
Other income (expenses):				
Interest and other income, net	567	1,375	3,090	1,713
Interest expense	(37,184)	(42,976)	(74,914)	(92,567)
Loss on debt extinguishment	(2,430)	(82,653)	(2,430)	(82,653)
Acquisition-related activity	(72)	(1,305)	(75)	(1,333)
Income from continuing operations before income taxes	109,647	55,707	153,595	94,626
Income tax benefit (expense)	157	2,288	(186)	804
Income from continuing operations	109,804	57,995	153,409	95,430
Discontinued operations:				
Income before gain on sales	127	36	364	10,195
Gain on sale of depreciable properties, net of tax	252	396,134	166	414,509
Income from discontinued operations	379	396,170	530	424,704
Net income	110,183	454,165	153,939	520,134
Net income attributable to noncontrolling interests	(1,116)	(4,785)	(1,565)	(5,510)
Net income attributable to common shareholders	$109,067	$449,380	$152,374	$514,624
Basic net income per common share:				
Continuing operations attributable to common shareholders	$0.31	$0.16	$0.44	$0.27
Discontinued operations attributable to common shareholders	—	1.14	—	1.22
Total	$0.31	$1.30	$0.44	$1.49
Diluted net income per common share:				
Continuing operations attributable to common shareholders	$0.31	$0.16	$0.44	$0.27
Discontinued operations attributable to common shareholders	—	1.14	—	1.22

Total	$0.31	$1.30	$0.44	$1.49
Weighted average number of common shares outstanding	347,464	345,098	346,564	344,849
Weighted average number of common shares and potential dilutive securities	354,433	349,161	352,227	348,945
Comprehensive income:				
Net income	$110,183	$454,165	$153,939	$520,134
Other comprehensive loss:				
Amortization of interest contracts	(295)	(276)	(590)	(563)
Other	—	(123)	—	(123)
Total other comprehensive loss	(295)	(399)	(590)	(686)
Comprehensive income	$109,888	$453,766	$153,349	$519,448

See accompanying Notes to Consolidated Financial Statements

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DUKE REALTY CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the six months ended June 30,
(in thousands)
(Unaudited)

	2016	2015
Cash flows from operating activities:		
Net income	$153,939	$520,134
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of buildings and tenant improvements	126,594	128,624
Amortization of deferred leasing and other costs	31,365	35,130
Amortization of deferred financing costs	2,608	3,835
Straight-line rental income and expense, net	(5,768)	(12,775)
Impairment charges	12,056	5,470
Loss on debt extinguishment	2,430	82,653
Gain on dissolution of unconsolidated company	(30,697)	—
Accrued promote income	(24,087)	—
Gains on land and depreciated property sales	(55,894)	(571,060)
Third-party construction contracts, net	723	4,956
Other accrued revenues and expenses, net	(5,817)	(11,924)
Operating distributions received less than equity in earnings from unconsolidated companies	(16,080)	(9,391)
Net cash provided by operating activities	191,372	175,652
Cash flows from investing activities:		
Development of real estate investments	(213,262)	(109,617)
Acquisition of real estate investments and related intangible assets	(16,029)	(20,929)
Acquisition of undeveloped land	(27,243)	(25,579)
Second generation tenant improvements, leasing costs and building improvements	(30,237)	(30,871)
Other deferred leasing costs	(14,993)	(22,302)
Other assets	182,996	(94,745)
Proceeds from land and depreciated property sales, net	174,882	1,305,794
Capital distributions from unconsolidated companies	36,328	67,004
Capital contributions and advances to unconsolidated companies	(50,955)	(50,208)
Net cash provided by investing activities	41,487	1,018,547
Cash flows from financing activities:		
Proceeds from issuance of common shares, net	99,844	4,756
Proceeds from unsecured debt	375,000	—
Payments on unsecured debt	(75,668)	(759,354)
Payments on secured indebtedness including principal amortization	(348,743)	(207,169)
Repayments of line of credit, net	(71,000)	(106,000)
Distributions to common shareholders	(124,651)	(117,274)
Distributions to noncontrolling interests	(1,304)	(1,394)
Change in book overdrafts	(10,974)	(5,322)
Deferred financing costs	(6,196)	(110)
Net cash used for financing activities	(163,692)	(1,191,867)
Net increase in cash and cash equivalents	69,167	2,332
Cash and cash equivalents at beginning of period	22,533	17,922
Cash and cash equivalents at end of period	$91,700	$20,254
Non-cash investing and financing activities:		
Mortgage notes receivable from buyers in property sales	$1,685	$200,000

Conversion of Limited Partner Units to common shares	$185	$(1,693)

See accompanying Notes to Consolidated Financial Statements

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DUKE REALTY CORPORATION AND SUBSIDIARIES
Consolidated Statement of Changes in Equity
For the six months ended June 30, 2016
(in thousands, except per share data)
(Unaudited)

	Common Shareholders					
	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Distributions in Excess of Net Income	Noncontrolling Interests	Total
Balance at December 31, 2015	$ 3,453	$4,961,923	$ 1,806	$(1,785,250)	$ 22,869	$3,204,801
Net income		—	—	152,374	1,565	153,939
Other comprehensive loss	—	—	(590)	—	—	(590)
Issuance of common shares	42	99,802	—	—	—	99,844
Stock-based compensation plan activity	8	6,307	—	(1,020)	2,875	8,170
Conversion of Limited Partner Units	—	185	—	—	(185)	—
Distributions to common shareholders ($0.36 per share)	—	—	—	(124,651)	—	(124,651)
Distributions to noncontrolling interests	—	—	—	—	(1,304)	(1,304)
Balance at June 30, 2016	$ 3,503	$5,068,217	$ 1,216	$(1,758,547)	$ 25,820	$3,340,209

See accompanying Notes to Consolidated Financial Statements

DUKE REALTY LIMITED PARTNERSHIP AND SUBSIDIARIES
Consolidated Balance Sheets
(in thousands)

	June 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Real estate investments:		
Land and improvements	$1,514,975	$1,391,763
Buildings and tenant improvements	5,008,656	4,740,837
Construction in progress	213,962	321,062
Investments in and advances to unconsolidated companies	289,299	268,390
Undeveloped land	307,627	383,045
	7,334,519	7,105,097
Accumulated depreciation	(1,290,102)	(1,192,425)
Net real estate investments	6,044,417	5,912,672
Real estate investments and other assets held-for-sale	3,462	45,801
Cash and cash equivalents	91,700	22,533
Accounts receivable, net of allowance of $1,170 and $1,113	21,439	18,846
Straight-line rent receivable, net of allowance of $6,243 and $6,155	120,096	116,781
Receivables on construction contracts, including retentions	13,437	16,459
Deferred leasing and other costs, net of accumulated amortization of $257,712 and $245,426	345,472	346,374
Escrow deposits and other assets	225,002	416,049
	$6,865,025	$6,895,515
LIABILITIES AND EQUITY		
Indebtedness:		
Secured debt, net of deferred financing cost of $1,161 and $1,552	$389,679	$738,444
Unsecured debt, net of deferred financing cost of $24,427 and $20,046	2,808,102	2,510,697
Unsecured line of credit	—	71,000
	3,197,781	3,320,141
Liabilities related to real estate investments held-for-sale	645	972
Construction payables and amounts due subcontractors, including retentions	46,100	54,921
Accrued real estate taxes	78,117	71,617
Accrued interest	31,837	34,447
Other accrued expenses	34,338	61,827
Other liabilities	94,391	106,283
Tenant security deposits and prepaid rents	41,607	40,506
Total liabilities	3,524,816	3,690,714
Partners' equity:		
Common equity (350,273 and 345,285 General Partner Units issued and outstanding)	3,313,173	3,180,126
	3,313,173	3,180,126
Limited Partners' common equity (3,496 and 3,487 Limited Partner Units issued and outstanding)	23,009	20,032
Accumulated other comprehensive income	1,216	1,806

Total partners' equity	3,337,398	3,201,964
Noncontrolling interests	2,811	2,837
Total equity	3,340,209	3,204,801
	$6,865,025	$6,895,515

See accompanying Notes to Consolidated Financial Statements

DUKE REALTY LIMITED PARTNERSHIP AND SUBSIDIARIES
Consolidated Statements of Operations and Comprehensive Income
For the three and six months ended June 30,
(in thousands, except per unit amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	2016	2015	2016	2015
Revenues:				
Rental and related revenue	$200,520	$201,996	$402,323	$416,611
General contractor and service fee revenue	26,044	23,901	49,195	76,722
	226,564	225,897	451,518	493,333
Expenses:				
Rental expenses	25,729	30,094	55,008	66,218
Real estate taxes	29,948	27,747	59,575	58,526
General contractor and other services expenses	22,228	21,738	43,148	68,762
Depreciation and amortization	80,161	78,334	157,959	160,237
	158,066	157,913	315,690	353,743
Other operating activities:				
Equity in earnings of unconsolidated companies	3,534	15,123	25,394	21,369
Gain on dissolution of unconsolidated company	30,697	—	30,697	—
Promote income	24,087	—	24,087	—
Gain on sale of properties	39,314	107,410	54,891	130,894
Gain on land sales	707	17,012	837	22,437
Other operating expenses	(836)	(1,555)	(2,072)	(3,112)
Impairment charges	(5,651)	(5,470)	(12,056)	(5,470)
General and administrative expenses	(11,584)	(19,238)	(29,682)	(36,242)
	80,268	113,282	92,096	129,876
Operating income	148,766	181,266	227,924	269,466
Other income (expenses):				
Interest and other income, net	567	1,375	3,090	1,713
Interest expense	(37,184)	(42,976)	(74,914)	(92,567)
Loss on debt extinguishment	(2,430)	(82,653)	(2,430)	(82,653)
Acquisition-related activity	(72)	(1,305)	(75)	(1,333)
Income from continuing operations before income taxes	109,647	55,707	153,595	94,626
Income tax benefit (expense)	157	2,288	(186)	804
Income from continuing operations	109,804	57,995	153,409	95,430
Discontinued operations:				
Income before gain on sales	127	36	364	10,195
Gain on sale of depreciable properties, net of tax	252	396,134	166	414,509
Income from discontinued operations	379	396,170	530	424,704
Net income	110,183	454,165	153,939	520,134
Net income attributable to noncontrolling interests	(15)	(23)	(26)	(49)
Net income attributable to common unitholders	$110,168	$454,142	$153,913	$520,085
Basic net income per Common Unit:				
Continuing operations attributable to common unitholders	$0.31	$0.16	$0.44	$0.27
Discontinued operations attributable to common unitholders	—	1.14	—	1.22
Total	$0.31	$1.30	$0.44	$1.49
Diluted net income per Common Unit:				
Continuing operations attributable to common unitholders	$0.31	$0.16	$0.44	$0.27
Discontinued operations attributable to common unitholders	—	1.14	—	1.22

Total	$0.31	$1.30	$0.44	$1.49
Weighted average number of Common Units outstanding	350,968	348,728	350,065	348,511
Weighted average number of Common Units and potential dilutive securities	354,433	349,161	352,227	348,945
Comprehensive income:				
Net income	$110,183	$454,165	$153,939	$520,134
Other comprehensive loss:				
Amortization of interest contracts	(295)	(276)	(590)	(563)
Other	—	(123)	—	(123)
Total other comprehensive loss	(295)	(399)	(590)	(686)
Comprehensive income	$109,888	$453,766	$153,349	$519,448

See accompanying Notes to Consolidated Financial Statements

DUKE REALTY LIMITED PARTNERSHIP AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the six months ended June 30,
(in thousands)
(Unaudited)

	2016	2015
Cash flows from operating activities:		
Net income	$153,939	$520,134
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of buildings and tenant improvements	126,594	128,624
Amortization of deferred leasing and other costs	31,365	35,130
Amortization of deferred financing costs	2,608	3,835
Straight-line rental income and expense, net	(5,768)	(12,775)
Impairment charges	12,056	5,470
Loss on debt extinguishment	2,430	82,653
Gain on dissolution of unconsolidated company	(30,697)	—
Accrued promote income	(24,087)	—
Gains on land and depreciated property sales	(55,894)	(571,060)
Third-party construction contracts, net	723	4,956
Other accrued revenues and expenses, net	(5,817)	(11,875)
Operating distributions received less than equity in earnings from unconsolidated companies	(16,080)	(9,391)
Net cash provided by operating activities	191,372	175,701
Cash flows from investing activities:		
Development of real estate investments	(213,262)	(109,617)
Acquisition of real estate investments and related intangible assets	(16,029)	(20,929)
Acquisition of undeveloped land	(27,243)	(25,579)
Second generation tenant improvements, leasing costs and building improvements	(30,237)	(30,871)
Other deferred leasing costs	(14,993)	(22,302)
Other assets	182,996	(94,745)
Proceeds from land and depreciated property sales, net	174,882	1,305,794
Capital distributions from unconsolidated companies	36,328	67,004
Capital contributions and advances to unconsolidated companies	(50,955)	(50,208)
Net cash provided by investing activities	41,487	1,018,547
Cash flows from financing activities:		
Contributions from the General Partner	99,844	4,707
Proceeds from unsecured debt	375,000	—
Payments on unsecured debt	(75,668)	(759,354)
Payments on secured indebtedness including principal amortization	(348,743)	(207,169)
Repayments of line of credit, net	(71,000)	(106,000)
Distributions to common unitholders	(125,903)	(118,525)
Distributions to noncontrolling interests	(52)	(143)
Change in book overdrafts	(10,974)	(5,322)
Deferred financing costs	(6,196)	(110)
	(163,692)	(1,191,916)
Net increase in cash and cash equivalents	69,167	2,332
Cash and cash equivalents at beginning of period	22,533	17,922
Cash and cash equivalents at end of period	$91,700	$20,254

Non-cash investing and financing activities:

Mortgage notes receivable from buyers in property sales	$1,685	$200,000
Conversion of Limited Partner Units to common shares of the General Partner	$185	$(1,693)

See accompanying Notes to Consolidated Financial Statements

DUKE REALTY LIMITED PARTNERSHIP AND SUBSIDIARIES
Consolidated Statement of Changes in Equity
For the six months ended June 30, 2016
(in thousands, except per unit data)
(Unaudited)

	Common Unitholders					
	General Partner's Common Equity	Limited Partners' Common Equity	Accumulated Other Comprehensive Income	Total Partners' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2015	$3,180,126	$20,032	$ 1,806	$3,201,964	$ 2,837	$3,204,801
Net income	152,374	1,539	—	153,913	26	153,939
Other comprehensive loss	—	—	(590)	(590)	—	(590)
Capital contribution from the General Partner	99,844	—	—	99,844	—	99,844
Stock-based compensation plan activity	5,295	2,875	—	8,170	—	8,170
Conversion of Limited Partner Units to common shares of the General Partner	185	(185)	—	—	—	—
Distributions to Partners ($0.36 per Common Unit)	(124,651)	(1,252)	—	(125,903)	—	(125,903)
Distributions to noncontrolling interests	—	—	—	—	(52)	(52)
Balance at June 30, 2016	$3,313,173	$23,009	$ 1,216	$3,337,398	$ 2,811	$3,340,209

See accompanying Notes to Consolidated Financial Statements

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DUKE REALTY CORPORATION AND DUKE REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General Basis of Presentation

The interim consolidated financial statements included herein have been prepared by Duke Realty Corporation (the "General Partner") and Duke Realty Limited Partnership (the "Partnership"). In this Quarterly Report on Form 10-Q ("Report"), unless the context indicates otherwise, the terms "Company," "we," "us" and "our" refer to the General Partner and the Partnership, collectively, and those entities owned or controlled by the General Partner and/or the Partnership. The 2015 year-end consolidated balance sheet data included in this Report was derived from the audited financial statements in the combined Annual Report on Form 10-K of the General Partner and the Partnership for the year ended December 31, 2015 (the "2015 Annual Report"), but does not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP"). The financial statements have been prepared in accordance with GAAP for interim financial information and in accordance with Rule 10-01 of Regulation S-X of the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenue and expenses during the reporting period. Our actual results could differ from those estimates and assumptions. These financial statements should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included herein and the consolidated financial statements and notes thereto included in the 2015 Annual Report.

The General Partner was formed in 1985, and we believe that it qualifies as a real estate investment trust ("REIT") under the provisions of the Internal Revenue Code of 1986, as amended (the "Code"). The Partnership was formed on October 4, 1993, when the General Partner contributed all of its properties and related assets and liabilities, together with the net proceeds from an offering of additional shares of its common stock, to the Partnership. Simultaneously, the Partnership completed the acquisition of Duke Associates, a full-service commercial real estate firm operating in the Midwest whose operations began in 1972.

The General Partner is the sole general partner of the Partnership, owning approximately 99.0% of the common partnership interests of the Partnership ("General Partner Units") at June 30, 2016. The remaining 1.0% of the common partnership interests ("Limited Partner Units" and, together with the General Partner Units, the "Common Units") are owned by limited partners. As the sole general partner of the Partnership, the General Partner has full, exclusive and complete responsibility and discretion in the day-to-day management and control of the Partnership.

The General Partner and the Partnership are operated as one enterprise. The management of the General Partner consists of the same members as the management of the Partnership. As the sole general partner with control of the Partnership, the General Partner consolidates the Partnership for financial reporting purposes, and the General Partner does not have any significant assets other than its investment in the Partnership. Therefore, the assets and liabilities of the General Partner and the Partnership are substantially the same.

Limited Partners have the right to redeem their Limited Partner Units, subject to certain restrictions. Pursuant to the Fifth Amended and Restated Agreement of Limited Partnership, as amended (the "Partnership Agreement"), the General Partner is obligated to redeem the Limited Partner Units in shares of its common stock, unless it determines in its reasonable discretion that the issuance of shares of its common stock could cause it to fail to qualify as a REIT. Each Limited Partner Unit shall be redeemed for one share of the General Partner's common stock, or, in the event that the issuance of shares could cause the General Partner to fail to qualify as a REIT, cash equal to the fair market value of one share of the General Partner's common stock at the time of redemption, in each case, subject to certain adjustments described in the Partnership Agreement. The Limited Partner Units are not required, per the terms of the Partnership Agreement, to be redeemed in registered shares of the General Partner.

As of June 30, 2016, we owned and operated a portfolio consisting primarily of industrial and medical office properties and provided real estate services to third-party owners. Substantially all of our Rental Operations (see Note 10) are conducted through the Partnership. We conduct our Service Operations (see Note 10) through Duke

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Realty Services, LLC, Duke Realty Services Limited Partnership and Duke Construction Limited Partnership ("DCLP"), which are consolidated entities that are 100% owned by a combination of the General Partner and the Partnership. DCLP is owned through a taxable REIT subsidiary. The consolidated financial statements include our accounts and the accounts of our majority-owned or controlled subsidiaries.

2. New Accounting Pronouncements

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). ASU 2014-09 is a comprehensive revenue recognition standard that will supersede nearly all existing GAAP revenue recognition guidance as well as impact the existing GAAP guidance governing the sale of nonfinancial assets. The standard’s core principle is that a company will recognize revenue when it satisfies performance obligations, by transferring promised goods or services to customers, in an amount that reflects the consideration to which the company expects to be entitled in exchange for fulfilling those performance obligations. In doing so, companies will need to exercise more judgment and make more estimates than under existing GAAP guidance.

ASU 2014-09 will be effective for public entities for annual and interim reporting periods beginning after December 15, 2017 and early adoption is permitted in periods ending after December 15, 2016. ASU 2014-09 allows for either recognizing the cumulative effect of application (i) at the start of the earliest comparative period presented (with the option to use any or all of three practical expedients) or (ii) at the date of initial application, with no restatement of comparative periods presented.

We have not yet selected a transition method nor have we determined the effect of ASU 2014-09 on our consolidated financial statements.

Consolidation

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis ("ASU 2015-02"). ASU 2015-02 makes targeted amendments to the current consolidation guidance and ends the deferral granted to investment companies from applying the existing variable interest entity ("VIE") guidance. ASU 2015-02 is effective for public entities for annual and interim reporting periods beginning after December 15, 2015. We adopted ASU 2015-02 during the three months ended March 31, 2016, and it has not had a significant impact on our consolidated financial statements.

Debt Issuance Costs

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. ASU 2015-03 is effective for financial statements issued for annual and interim reporting periods beginning after December 15, 2015. We adopted ASU 2015-03 during the three months ended March 31, 2016.

Debt issuance costs related to the Partnership's unsecured line of credit continue to be presented as assets in the consolidated balance sheets, as part of escrow deposits and other assets, pursuant to ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements.

Business Combinations

In September 2015, the FASB issued ASU 2015-16, Business Combinations - Simplifying the Accounting for Measurement-Period Adjustments ("ASU 2015-16"). ASU 2015-16 amends the retroactive requirement to apply adjustments made to provisional amounts recognized in a business combination. The update requires that the acquirer record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. ASU 2015-16 is effective for annual and interim periods beginning after December 15, 2015. We adopted ASU 2015-16 during the three months ended March 31, 2016 and it has not had a significant impact on our consolidated financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, Leases ("ASU 2016-02"), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). ASU 2016-02 supersedes existing leasing standards.

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 of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. ASU 2016-02 requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASU 2016-02 also requires that lessors expense certain initial direct costs, which are capitalizable under existing leasing standards, as incurred.

ASU 2016-02 is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. A set of practical expedients for implementation, which must be elected as a package and for all leases, may also be elected. These practical expedients include relief from re-assessing lease classification at the adoption date for expired or existing leases, although a right-of-use asset and lease liability would still be recorded for such leases. We are currently assessing the method of adoption and the impact that ASU 2016-02 will have on our consolidated financial statements.

Stock Based Compensation

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Accounting ("ASU 2016-09"). ASU 2016-09 requires that all excess tax benefits and tax deficiencies related to stock based compensation arrangements must be recognized in the income statement as they occur as opposed to the current guidance where excess tax benefits are recorded in equity. ASU 2016-09 also allows entities to make an accounting policy election to either continue to estimate forfeitures on stock based compensation arrangements or to account for forfeitures as they occur. ASU 2016-09 is effective for reporting periods beginning after December 15, 2016 with early adoption permitted. We do not believe ASU 2016-09 will have a material impact on our consolidated financial statements.

3. Reclassifications

Certain amounts in the accompanying consolidated financial statements for 2015, including the change in presentation of deferred financing costs pursuant to ASU 2015-03, have been reclassified to conform to the 2016 consolidated financial statement presentation.

4. Variable Interest Entities

Partnership

As the result of the adoption of ASU 2015-02, which stipulates that limited partnerships (and similar entities) where the limited partners do not have substantive participating or kick-out rights are VIEs, we determined that the Partnership is a VIE. Prior to the adoption of ASU 2015-02, the General Partner consolidated the Partnership pursuant to the voting interest model. We concluded that, because it holds majority ownership and exercises control over every aspect of the Partnership's operations, the General Partner is the primary beneficiary of the Partnership and, as such, will continue to consolidate the Partnership.

The assets and liabilities of the General Partner and the Partnership are substantially the same, as the General Partner does not have any significant assets other than its investment in the Partnership. All of the Company's debt is also an obligation of the Partnership.

Unconsolidated Joint Ventures

We have equity interests in unconsolidated joint ventures that primarily own and operate rental properties or hold land for development. We consolidate those joint ventures that are considered to be VIEs where we are the primary beneficiary. We analyze our investments in joint ventures to determine if the joint venture is considered a VIE and would require consolidation. We (i) evaluate the sufficiency of the total equity investment at risk, (ii) review the voting rights and decision-making authority of the equity investment holders as a group and whether there are limited partners (or similar owning entities) that lack substantive participating or kick out rights, guaranteed returns, protection against losses, or capping of residual returns within the group and (iii) establish whether activities within the venture are on behalf of an investor with disproportionately few voting rights in making this VIE determination. To the extent that we own interests in a VIE and we (i) are the sole entity that has the power to direct the activities of the VIE and (ii) have the obligation or rights to absorb the VIE's losses or receive its benefits, then we would be determined to be the primary beneficiary and would consolidate the VIE. To the extent we own interests in a VIE, then at each reporting period, we re-assess our conclusions as to which, if any, party within the VIE is considered the primary beneficiary.

There were no unconsolidated joint ventures, in which we have any recognized assets or liabilities or have retained any economic exposure to loss at June 30, 2016 that met the criteria to be considered VIEs. Our maximum loss exposure for guarantees of joint venture indebtedness, none of which relate to VIEs, totaled $75.5 million at June 30, 2016.

5. Acquisitions and Dispositions

Acquisitions and dispositions for the periods presented were completed in accordance with our strategy to reposition our investment concentration among the product types and markets in which we operate. With the exception of certain properties that have been sold or classified as held for sale, the results of operations for all acquired properties have been included in continuing operations within our consolidated financial statements since their respective dates of acquisition.

Acquisitions

We acquired two properties during the six months ended June 30, 2016, which included a property received as part of a non-cash distribution in connection with the dissolution of an unconsolidated joint venture. The following table summarizes amounts recognized for each major class of asset and liability (in thousands) for these acquisitions:

Real estate assets	$72,824
Lease related intangible assets	6,427
Fair value of acquired net assets	$79,251

Acquired leases had an average remaining life at acquisition of approximately 8.9 years.

We have included $364,000 in rental revenues and $89,000 in income from continuing operations during the six months ended June 30, 2016 for the properties since their respective dates of acquisition.

Distribution of Joint Venture Properties

Included in our property acquisitions for the six months ended June 30, 2016 was an industrial property that we received as part of a non-cash distribution of properties from Duke/Hulfish LLC ("Duke/Hulfish"), a 20% owned unconsolidated joint venture. On June 30, 2016, as part of a plan of dissolution, Duke/Hulfish distributed its ownership in seven properties to our partner in the joint venture while distributing its ownership interest in one property to us. We also received $2.8 million in cash from the joint venture in order to balance the value of the distributions received in accordance with the applicable ownership percentages. As the result of this dissolution transaction, we recognized a gain equal to the excess of the fair value of the one property distributed to us, plus the cash that we received, over the carrying value of our 20% investment in the eight properties that were distributed from Duke/Hulfish (both to us and our partner). The computation of this gain is shown as follows (in thousands):

Fair value of one property received in non-cash distribution	$63,000
Cash received at dissolution	2,760
Carrying value of investment in properties distributed to partners	(35,063)
Gain on dissolution of unconsolidated company	$30,697

The plan of dissolution for Duke/Hulfish also contained provisions that effectively established a minimum amount of promote income (additional incentive-based cash distributions from the joint venture, in excess of our 20% ownership interest) to which we would be entitled. This amount, totaling $24.1 million, was recognized during the six months ended June 30, 2016 and is reflected within investments in and advances to unconsolidated companies on our consolidated Balance Sheet as of June 30, 2016. This amount was fully collected in late July 2016 when Duke/Hulfish sold its last remaining property to a third party.

Fair Value Measurements

The fair value estimates used in allocating the aggregate purchase price of an acquisition, to the extent accounted for as a business combination, among the individual components of real estate assets and liabilities were determined primarily through calculating the "as-if vacant" value of a building, using the income approach, and relied significantly upon internally determined assumptions. We have determined that these estimates primarily rely upon level 3 inputs, which are unobservable inputs based on our own assumptions. The most significant assumptions utilized in making the lease-up and future disposition estimates used in calculating the "as-if vacant" value for acquisition activity during the six months ended June 30, 2016 are as follows:

	Low	High
Discount rate	7.46%	8.10%
Exit capitalization rate	6.46%	6.96%
Lease-up period (months)	12	12
Net rental rate per square foot - Industrial	$3.39	$3.39
Net rental rate per square foot - Medical Office	$15.40	$15.40

Acquisition-Related Activity

The acquisition-related activity in our consolidated Statements of Operations and Comprehensive Income consisted of adjustments to the fair value of contingent consideration from acquisitions after the measurement period was complete and transaction costs for completed acquisitions.

Dispositions

Dispositions of buildings (see Note 11 for the number of buildings sold as well as for their classification between continuing and discontinued operations) and undeveloped land generated net cash proceeds of $174.9 million and $1.31 billion during the six months ended June 30, 2016 and 2015, respectively.

6. Indebtedness

All debt is held directly or indirectly by the Partnership. The General Partner does not have any indebtedness, but does guarantee some of the unsecured debt of the Partnership. The following table summarizes the book value and changes in the fair value of our debt for the six months ended June 30, 2016 (in thousands):

	Book Value at 12/31/2015	Book Value at 6/30/2016	Fair Value at 12/31/2015	Issuances and Assumptions	Payments/Payoffs	Adjustments to Fair Value	Fair Value at 6/30/2016
Fixed rate secured debt	$736,896	$387,740	$789,095	$ —	$ (348,702)	$ (1,346)	$439,047
Variable rate secured debt	3,100	3,100	3,100	—	—	—	3,100
Unsecured debt	2,530,743	2,832,529	2,624,795	375,000	(73,214)	80,343	3,006,924
Unsecured line of credit	71,000	—	70,852	—	(71,000)	148	—
Total	$3,341,739	$3,223,369	$3,487,842	$ 375,000	$ (492,916)	$ 79,145	$3,449,071
Less: Deferred financing costs	21,598	25,588					
Total indebtedness as reported on the consolidated balance sheets	$3,320,141	$3,197,781					

Secured Debt

Because our fixed rate secured debt is not actively traded in any marketplace, we utilized a discounted cash flow methodology to determine its fair value. Accordingly, we calculated fair value by applying an estimate of the current market rate to discount the debt's remaining contractual cash flows. Our estimate of a current market rate, which is the most significant input in the discounted cash flow calculation, is intended to replicate debt of similar maturity and loan-to-value relationship. The estimated rates ranged from 2.50% to 3.10%, depending on the attributes of the specific loans. The current market rates we utilized were internally estimated; therefore, we have concluded that our determination of fair value for our fixed rate secured debt was primarily based upon level 3 inputs.

During the six months ended June 30, 2016, we repaid four loans, totaling $344.7 million, which had a weighted average stated rate of 5.90%.

Unsecured Debt

At June 30, 2016, with the exception of one variable rate term note, all of our unsecured debt bore interest at fixed rates and primarily consisted of unsecured notes that are publicly traded. We utilized broker estimates in estimating the fair value of our fixed rate unsecured debt. Our unsecured notes are thinly traded and, in certain cases, the broker estimates were not based upon comparable transactions. The broker estimates took into account any recent trades within the same series of our fixed rate unsecured debt, comparisons to recent trades of other series of our fixed rate unsecured debt, trades of fixed rate unsecured debt from companies with profiles similar to ours, as well as overall economic conditions. We reviewed these broker estimates for reasonableness and accuracy, considering whether the estimates were based upon market participant assumptions within the principal and most advantageous market and whether any other observable inputs would be more accurate indicators of fair value than the broker estimates. We concluded that the broker estimates were representative of fair value. We have determined that our estimation of the fair value of our fixed rate unsecured debt was primarily based upon level 3 inputs. The estimated trading values of our fixed rate unsecured debt, depending on the maturity and coupon rates, ranged from 101.00% to 133.00% of face value.

In June 2016, we issued $375.0 million of unsecured notes that bear interest at a stated interest rate of 3.25%, have an effective interest rate of 3.36%, and mature on June 30, 2026. A portion of these proceeds were used to repurchase, through a tender offer, $72.0 million of our 5.95% notes due February 2017, for a cash payment of $74.5 million.

We utilize a discounted cash flow methodology in order to estimate the fair value of our $250.0 million variable rate term loan. Our estimate of the current market rate for our variable rate term loan was 1.60% and was based primarily upon level 3 inputs. To the extent that credit spreads have changed since the origination of this term loan, the net present value of the difference between future contractual interest payments and future interest payments based on our estimate of a current market rate would represent the difference between the book value and the fair value. Our estimate of a current market rate is based upon the rate, considering current market conditions and our specific credit profile, at which we estimate we could obtain similar borrowings. As our credit spreads have not

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changed appreciably, we believe that the contractual interest rate and the current market rate on the term loan are the same.

The indentures (and related supplemental indentures) governing our outstanding series of notes also require us to comply with financial ratios and other covenants regarding our operations. We were in compliance with all such covenants at June 30, 2016.

Unsecured Line of Credit

Our unsecured line of credit at June 30, 2016 is described as follows (in thousands):

Description	Maximum Capacity	Maturity Date	Outstanding Balance at June 30, 2016
Unsecured Line of Credit - Partnership	$1,200,000	January 2019	$ —

The Partnership's unsecured line of credit has an interest rate on borrowings of LIBOR plus 1.05% and a maturity date of January 2019 (with extension options that could extend the maturity date to January 2020). Subject to certain conditions, the terms also include an option to increase the facility by up to an additional $400.0 million, for a total of up to $1.6 billion. This line of credit provides us with an option to obtain borrowings from financial institutions that participate in the line at rates that may be lower than the stated interest rate, subject to certain restrictions.

This line of credit contains financial covenants that require us to meet certain financial ratios and defined levels of performance, including those related to fixed charge coverage, unsecured interest expense coverage and debt-to-asset value (with asset value being defined in the Partnership's unsecured line of credit agreement). At June 30, 2016, we were in compliance with all covenants under this line of credit.

To the extent that there are outstanding borrowings, we utilize a discounted cash flow methodology in order to estimate the fair value of our unsecured line of credit. To the extent that credit spreads have changed since the origination of the line of credit, the net present value of the difference between future contractual interest payments and future interest payments based on our estimate of a current market rate would represent the difference between the book value and the fair value. Our estimate of a current market rate is based upon the rate, considering current market conditions and our specific credit profile, at which we estimate we could obtain similar borrowings. As our credit spreads have not changed appreciably, we believe that the contractual interest rate and the current market rate on the line of credit are the same. To the extent there are outstanding borrowings, this current market rate is internally estimated and therefore would be primarily based upon a level 3 input.

7. Shareholders' Equity of the General Partner and Partners' Capital of the Partnership

General Partner

During the six months ended June 30, 2016, the General Partner issued 4.2 million common shares pursuant to its at the market equity program, generating gross proceeds of approximately $99.6 million and, after deducting commissions and other costs, net proceeds of approximately $98.5 million. The proceeds from these offerings were contributed to the Partnership and used for general corporate purposes.

Partnership

For each common share or preferred share that the General Partner issues, the Partnership issues a corresponding General Partner Unit or Preferred Unit, as applicable, to the General Partner in exchange for the contribution of the proceeds from the stock issuance. Similarly, when the General Partner redeems or repurchases common shares or preferred shares, the Partnership redeems the corresponding Common Units or Preferred Units held by the General Partner at the same price.

8. Related Party Transactions

We provide property management, asset management, leasing, construction and other tenant-related services to unconsolidated companies in which we have equity interests. We recorded the corresponding fees based on contractual terms that approximate market rates for these types of services and have eliminated our ownership percentage of these fees in the consolidated financial statements. The following table summarizes the fees earned from these companies, prior to the elimination of our ownership percentage, for the three and six months ended June 30, 2016 and 2015, respectively (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Management fees	$1,291	$1,752	$2,550	$3,553
Leasing fees	1,053	389	1,432	1,022
Construction and development fees	2,239	725	5,359	1,130

9. Net Income (Loss) Per Common Share or Common Unit

Basic net income (loss) per common share or Common Unit is computed by dividing net income (loss) attributable to common shareholders or common unitholders, less dividends or distributions on share-based awards expected to vest (referred to as "participating securities" and primarily composed of unvested restricted stock units), by the weighted average number of common shares or Common Units outstanding for the period.

Diluted net income (loss) per common share is computed by dividing the sum of basic net income (loss) attributable to common shareholders and the noncontrolling interest in earnings allocable to Limited Partner Units (to the extent the Limited Partner Units are dilutive) by the sum of the weighted average number of common shares outstanding and, to the extent they are dilutive, Units outstanding and any potential dilutive securities for the period. Diluted net income (loss) per Common Unit is computed by dividing the basic net income (loss) attributable to common unitholders by the sum of the weighted average number of Common Units outstanding and any potential dilutive securities for the period. The following table reconciles the components of basic and diluted net income per common share or Common Unit for the three and six months ended June 30, 2016 and 2015, respectively (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
General Partner				
Net income attributable to common shareholders	$109,067	$449,380	$152,374	$514,624
Less: Dividends on participating securities	(582)	(589)	(1,171)	(1,209)
Basic net income attributable to common shareholders	108,485	448,791	151,203	513,415
Add back dividends on dilutive participating securities	582	—	569	—
Noncontrolling interest in earnings of common unitholders	1,101	4,762	1,539	5,461
Diluted net income attributable to common shareholders	$110,168	$453,553	$153,311	$518,876
Weighted average number of common shares outstanding	347,464	345,098	346,564	344,849
Weighted average Limited Partner Units outstanding	3,504	3,630	3,501	3,662
Other potential dilutive shares	3,465	433	2,162	434
Weighted average number of common shares and potential dilutive securities	354,433	349,161	352,227	348,945
Partnership				
Net income attributable to common unitholders	$110,168	$454,142	$153,913	$520,085
Less: Distributions on participating securities	(582)	(589)	(1,171)	(1,209)
Basic net income attributable to common unitholders	$109,586	$453,553	$152,742	$518,876
Add back distributions on dilutive participating securities	582	—	569	—
Diluted net income attributable to common unitholders	$110,168	$453,553	$153,311	$518,876
Weighted average number of Common Units outstanding	350,968	348,728	350,065	348,511
Other potential dilutive units	3,465	433	2,162	434
Weighted average number of Common Units and potential dilutive securities	354,433	349,161	352,227	348,945

The following table summarizes the data that is excluded from the computation of net income per common share or Common Unit as a result of being anti-dilutive (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
General Partner and Partnership				
Potential dilutive shares or units:				
Anti-dilutive outstanding potential shares or units under fixed stock option and other stock-based compensation plans	170	997	307	997
Outstanding participating securities	—	3,463	1,706	3,463

10. Segment Reporting

Reportable Segments

We had three reportable operating segments at June 30, 2016, the first two of which consist of the ownership and rental of (i) industrial and (ii) medical office real estate investments. Beginning in 2016 our office properties are no longer presented as a separate reportable segment, as they no longer meet the quantitative thresholds for separate presentation, and are referred to as part of our non-reportable Rental Operations. The operations of our industrial and medical office properties as well as our non-reportable Rental Operations, are collectively referred to as "Rental Operations." Our third reportable segment consists of various real estate services such as property management, asset management, maintenance, leasing, development, general contracting and construction management to third-party property owners and joint ventures, and is collectively referred to as "Service Operations." Our reportable segments offer different products or services and are managed separately because each segment requires different operating strategies and management expertise.

Revenues by Reportable Segment

The following table shows the revenues for each of the reportable segments, as well as a reconciliation to consolidated revenues, for the three and six months ended June 30, 2016 and 2015, respectively (in thousands):

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues				
Rental Operations:				
Industrial	$140,219	$135,487	$283,199	$283,115
Medical Office	43,135	40,274	85,360	80,302
Non-reportable Rental Operations	13,529	23,691	28,425	48,826
Service Operations	26,044	23,901	49,195	76,722
Total segment revenues	222,927	223,353	446,179	488,965
Other revenue	3,637	2,544	5,339	4,368
Consolidated revenue from continuing operations	226,564	225,897	451,518	493,333
Discontinued operations	126	49	355	32,164
Consolidated revenue	$226,690	$225,946	$451,873	$525,497

Supplemental Performance Measure

Property level net operating income on a cash basis ("PNOI") is the non-GAAP supplemental performance measure that we use to evaluate the performance of, and to allocate resources among, the real estate investments in the reportable and operating segments that comprise our Rental Operations. PNOI for our Rental Operations segments is comprised of rental revenues from continuing operations less rental expenses and real estate taxes from continuing operations, along with certain other adjusting items (collectively referred to as "Rental Operations revenues and expenses excluded from PNOI," as shown in the following table). Additionally, we do not allocate interest expense, depreciation expense and certain other non-property specific revenues and expenses (collectively referred to as "Non-Segment Items," as shown in the following table) to our individual operating segments.

We evaluate the performance of our Service Operations reportable segment using net income or loss, as allocated to that segment ("Earnings from Service Operations").

The following table shows a reconciliation of our segment-level measures of profitability to consolidated income from continuing operations before income taxes for the three and six months ended June 30, 2016 and 2015, respectively (in thousands and excluding discontinued operations):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
PNOI				
Industrial	$104,741	$96,629	$206,798	$191,588
Medical Office	28,179	25,820	55,421	51,051
Non-reportable Rental Operations	8,903	9,870	18,069	17,762
PNOI, excluding all sold/held for sale properties	141,823	132,319	280,288	260,401
PNOI from sold/held-for-sale properties included in continuing operations	629	8,545	2,994	22,735
PNOI, continuing operations	$142,452	$140,864	$283,282	$283,136
Earnings from Service Operations	3,816	2,163	6,047	7,960
Rental Operations revenues and expenses excluded from PNOI:				
Straight-line rental income and expense, net	2,893	3,956	5,824	11,107
Revenues related to lease buyouts	69	94	234	958
Amortization of lease concessions and above and below market rents	(425)	(490)	(1,058)	(2,203)
Intercompany rents and other adjusting items	(226)	(412)	(219)	(872)
Non-Segment Items:				
Equity in earnings of unconsolidated companies	3,534	15,123	25,394	21,369
Gain on dissolution of unconsolidated company	30,697	—	30,697	—
Promote income	24,087	—	24,087	—
Interest expense	(37,184)	(42,976)	(74,914)	(92,567)
Depreciation and amortization expense	(80,161)	(78,334)	(157,959)	(160,237)
Gain on sale of properties	39,314	107,410	54,891	130,894
Impairment charges on non-depreciable properties	(5,651)	(5,470)	(12,056)	(5,470)
Interest and other income, net	567	1,375	3,090	1,713
General and administrative expenses	(11,584)	(19,238)	(29,682)	(36,242)
Gain on land sales	707	17,012	837	22,437
Other operating expenses	(836)	(1,555)	(2,072)	(3,112)
Loss on extinguishment of debt	(2,430)	(82,653)	(2,430)	(82,653)
Acquisition-related activity	(72)	(1,305)	(75)	(1,333)
Other non-segment revenues and expenses, net	80	143	(323)	(259)
Income from continuing operations before income taxes	$109,647	$55,707	$153,595	$94,626

The most comparable GAAP measure to PNOI is income from continuing operations before income taxes. PNOI excludes expenses that materially impact our overall results of operations and, therefore, should not be considered as a substitute for income from continuing operations before income taxes or any other measures derived in accordance with GAAP. Furthermore, PNOI may not be comparable to other similarly titled measures of other companies.

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Assets by Reportable Segment

The assets for each of the reportable segments at June 30, 2016 and December 31, 2015 were as follows (in thousands):

	June 30, 2016	December 31, 2015
Assets		
Rental Operations:		
Industrial	$4,629,204	$ 4,552,107
Medical Office	1,304,920	1,269,546
Non-reportable Rental Operations	313,195	367,469
Service Operations	132,622	137,257
Total segment assets	6,379,941	6,326,379
Non-segment assets	485,084	569,136
Consolidated assets	$6,865,025	$ 6,895,515

11. Discontinued Operations, Assets Held-for-Sale and Impairments

Discontinued Operations

The following table illustrates the number of sold or held-for-sale properties included in, or excluded from, discontinued operations:

	Held-for-Sale at June 30, 2016	Sold Year-to-Date in 2016	Sold in 2015	Total
Industrial	0	0	5	5
Medical Office	0	0	1	1
Non-reportable Rental Operations	0	0	56	56
Total properties included in discontinued operations	0	0	62	62
Properties excluded from discontinued operations	1	9	91	101
Total properties sold or classified as held-for-sale	1	9	153	163

For the properties that were classified in discontinued operations, we allocated interest expense to discontinued operations and have included such interest expense in computing income from discontinued operations. Interest expense allocable to discontinued operations includes interest on any secured debt for properties included in discontinued operations and an allocable share of our consolidated unsecured interest expense for unencumbered properties. The allocation of unsecured interest expense to discontinued operations was based upon the gross book value of the unencumbered real estate assets included in discontinued operations as it related to the total gross book value of our unencumbered real estate assets. There were no additional properties classified as discontinued operations during the six months ended June 30, 2016 and, as such, no interest expense was allocated to discontinued operations during that period.

The following table illustrates the operational results of the buildings reflected in discontinued operations for the three and six months ended June 30, 2016 and 2015, respectively (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues	$126	$49	$355	$32,164
Operating expenses	1	(13)	9	(12,399)
Depreciation and amortization	—	—	—	(3,517)
Operating income	127	36	364	16,248
Interest expense	—	—	—	(6,053)
Income before gain on sales	127	36	364	10,195
Gain on sale of depreciable properties	252	399,354	166	417,729
Income from discontinued operations before income taxes	379	399,390	530	427,924
Income tax expense	—	(3,220)	—	(3,220)
Income from discontinued operations	$379	$396,170	$530	$424,704

We had no capital expenditures for the six months ended June 30, 2016 and $7.4 million for the six months ended June 30, 2015 related to properties classified within discontinued operations.

Allocation of Noncontrolling Interests - General Partner

The following table illustrates the General Partner's share of the income attributable to common shareholders from continuing operations and discontinued operations, reduced by the allocation of income between continuing and discontinued operations to the Limited Partner Units, for the three and six months ended June 30, 2016 and 2015, respectively (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Income from continuing operations attributable to common shareholders	$108,692	$57,333	$151,850	$94,382
Income from discontinued operations attributable to common shareholders	375	392,047	524	420,242
Net income attributable to common shareholders	$109,067	$449,380	$152,374	$514,624

Allocation of Noncontrolling Interests - Partnership

Substantially all of the income from discontinued operations for all periods presented in the Partnership's Consolidated Statements of Operations and Comprehensive Income is attributable to the common unitholders.

Properties Held-for-Sale

At June 30, 2016, one in-service property and 16 acres of undeveloped land were classified as held-for-sale but did not meet the criteria to be classified within discontinued operations. The following table illustrates aggregate balance sheet information for all held-for-sale properties at June 30, 2016 and December 31, 2015 (in thousands):

	Held-for-Sale Properties Included in Continuing Operations	
	June 30, 2016	December 31, 2015
Land and improvements	$603	$9,797
Buildings and tenant improvements	3,329	39,480
Undeveloped land	596	—
Accumulated depreciation	(1,437)	(7,183)
Deferred leasing and other costs, net	11	3,293
Other assets	360	414
Total assets held-for-sale	$3,462	$45,801
Accrued expenses	$43	$322
Other liabilities	602	650
Total liabilities held-for-sale	$645	$972

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Impairment Charges

As the result of changes in our intended use or plans for sale of certain of our undeveloped land holdings, we recognized impairment charges of $12.1 million for the six months ended June 30, 2016. The various land holdings written down to fair value totaled 174 acres. The fair value of the land upon which we recognized impairment charges was estimated based on asset-specific offers to purchase and comparable transactions. Our valuation estimates primarily relied upon level 3 inputs.

12. Subsequent Events

Declaration of Dividends/Distributions

The General Partner's board of directors declared the following dividends/distributions at its regularly scheduled board meeting held on July 27, 2016:

Class of stock/units	Quarterly Amount per Share or Unit	Record Date	Payment Date
Common - Quarterly	$0.18	August 16, 2016	August 31, 2016

Debt Extinguishment

Subsequent to the tender offer described in Note 6, the remaining $203.0 million balance of our 5.95% notes due February 2017 were retired on July 23, 2016 for a cash payment of $209.0 million.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to help the reader understand our operations and our present business environment. Management's Discussion and Analysis is provided as a supplement to and should be read in conjunction with our consolidated financial statements and the notes thereto, contained in Part I, Item I of this Report and the consolidated financial statements and notes thereto, contained in Part IV, Item 15 of our 2015 Annual Report.

Cautionary Notice Regarding Forward-Looking Statements

Certain statements contained in or incorporated by reference into this Report, including, without limitation, those related to our future operations, constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words "believe," "estimate," "expect," "anticipate," "intend," "plan," "seek," "may," "could" and similar expressions or statements regarding future periods are intended to identify forward-looking statements, although not all forward-looking statements contain such words.

These forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements, or industry results, to differ materially from any predictions of future results, performance or achievements that we express or imply in this Report. Some of the risks, uncertainties and other important factors that may affect future results include, among others:

- Changes in general economic and business conditions, including the financial condition of our tenants and the value of our real estate assets;
- The General Partner's continued qualification as a REIT for U.S. federal income tax purposes;
- Heightened competition for tenants and potential decreases in property occupancy;
- Potential changes in the financial markets and interest rates;
- Volatility in the General Partner's stock price and trading volume;
- Our continuing ability to raise funds on favorable terms;
- Our ability to successfully identify, acquire, develop and/or manage properties on terms that are favorable to us;
- Potential increases in real estate construction costs;
- Our ability to successfully dispose of properties on terms that are favorable to us, including, without limitation, through one or more transactions that are consistent with our previously disclosed strategic plans;
- Our ability to retain our current credit ratings;
- Inherent risks in the real estate business, including, but not limited to, tenant defaults, potential liability relating to environmental matters and liquidity of real estate investments; and
- Other risks and uncertainties described herein, as well as those risks and uncertainties discussed from time to time in our other reports and other public filings with the SEC.

Although we presently believe that the plans, expectations and results expressed in or suggested by the forward-looking statements contained or incorporated by reference into this Report are reasonable, all forward-looking statements are inherently subjective, uncertain and subject to change, as they involve substantial risks and uncertainties, including those beyond our control. New factors emerge from time to time, and it is not possible for us to predict the nature, or assess the potential impact, of each new factor on our business. Given these uncertainties, we caution you not to place undue reliance on these forward-looking statements. We undertake no obligation to update or revise any of our forward-looking statements for events or circumstances that arise after the statement is made, except as otherwise may be required by law.

The above list of risks and uncertainties is only a summary of some of the most important factors and is not intended to be exhaustive. Additional information regarding risk factors that may affect us is included in our 2015 Annual Report. The risk factors contained in our Annual Report are updated by us from time to time in Quarterly Reports on Form 10-Q and other public filings.

Business Overview

The General Partner is a self-administered and self-managed REIT that began operations in 1986 and is the sole general partner of the Partnership. The Partnership is a limited partnership formed in 1993, at which time all of the properties and related assets and liabilities of the General Partner, as well as proceeds from a secondary offering of the General Partner's common shares, were contributed to the Partnership. Simultaneously, the Partnership completed the acquisition of Duke Associates, a full-service commercial real estate firm operating in the Midwest whose operations began in 1972. We operate the General Partner and the Partnership as one enterprise, and therefore, our discussion and analysis refers to the General Partner and its consolidated subsidiaries, including the Partnership, collectively. A more complete description of our business, and of management's philosophy and priorities, is included in our 2015 Annual Report.

At June 30, 2016, we:

- Owned or jointly controlled 574 primarily industrial and medical office properties, of which 556 properties with 133.6 million square feet were in service and 18 properties with 6.0 million square feet were under development. The 556 in-service properties were comprised of 497 consolidated properties with 119.7 million square feet and 59 jointly controlled unconsolidated properties with 14.0 million square feet. The 18 properties under development consisted of 16 consolidated properties with 4.7 million square feet and two jointly controlled unconsolidated properties with 1.3 million square feet.
- Owned directly, or through ownership interests in unconsolidated joint ventures (with acreage not adjusted for our percentage ownership interest), approximately 2,900 acres of land and controlled approximately 1,600 acres through purchase options.

A key component of our overall strategy is to continue to increase our investment in quality industrial properties in both existing and select new markets, to continue to increase our investment in on-campus or hospital affiliated medical office properties and to ultimately dispose of our remaining suburban office properties.

We had three reportable operating segments at June 30, 2016, the first two of which consist of the ownership and rental of (i) industrial and (ii) medical office real estate investments. Beginning in 2016, our office properties are no longer presented as a separate reportable segment, as they no longer meet the quantitative thresholds for separate presentation, and are referred to as part of our non-reportable Rental Operations. The operations of our industrial and medical office properties as well as our non-reportable Rental Operations, are collectively referred to as "Rental Operations." The third reportable segment consists of various real estate services such as property management, asset management, maintenance, leasing, development, general contractor and construction management to third-party property owners and joint ventures, and is collectively referred to as "Service Operations." Our reportable segments offer different products or services and are managed separately because each segment requires different operating strategies and management expertise. Our Service Operations segment also includes our taxable REIT subsidiary, a legal entity through which certain of the segment's operations are conducted.

Key Performance Indicators

Our operating results depend primarily upon rental income from our Rental Operations. The following discussion highlights the areas of Rental Operations that we consider critical drivers of future revenues.

Occupancy Analysis

Our ability to maintain high occupancy rates is a principal driver of maintaining and increasing rental revenue. The following table sets forth percent leased and average net effective rent information regarding our in-service portfolio of rental properties, including properties classified within both continuing and discontinued operations, at June 30, 2016 and 2015, respectively:

Type	Total Square Feet (in thousands) 2016	2015	Percent of Total Square Feet 2016	2015	Percent Leased* 2016	2015	Average Annual Net Effective Rent** 2016	2015
Industrial	110,863	106,322	92.7 %	90.7 %	96.7 %	96.9 %	$4.08	$4.01
Medical Office	5,503	5,172	4.6 %	4.4 %	95.7 %	94.6 %	$23.63	$23.09
Non-reportable Rental Operations	3,290	5,697	2.7 %	4.9 %	86.0 %	86.6 %	$13.80	$12.33
Total Consolidated	119,656	117,191	100.0 %	100.0 %	96.4 %	96.3 %	$5.21	$5.20
Unconsolidated Joint Ventures	13,956	19,893			89.2 %	91.9 %	$5.71	$5.86
Total Including Unconsolidated Joint Ventures	133,612	137,084			95.6 %	95.6 %	$5.56	$5.24

* Represents the percentage of total square feet leased based on executed leases and without regard to whether the leases have commenced.

**Represents average annual base rental payments per leased square foot, on a straight-line basis for the term of each lease, from space leased to tenants at the end of the most recent reporting period. This amount excludes additional amounts paid by tenants as reimbursement for operating expenses.

Vacancy Activity

The following table sets forth vacancy activity, shown in square feet, regarding our in-service rental properties, including properties classified within both continuing and discontinued operations, at June 30, 2016, (in thousands):

	Consolidated Properties	Unconsolidated Joint Venture Properties	Total Including Unconsolidated Joint Venture Properties
Vacant square feet at December 31, 2015	4,015	1,310	5,325
Vacant space in completed developments	2,337	228	2,565
Dispositions	(117)	(2)	(119)
Expirations	2,922	334	3,256
Early lease terminations	146	2	148
Property structural changes/other	1	—	1
Leasing of previously vacant space	(4,947)	(363)	(5,310)
Vacant square feet at June 30, 2016	4,357	1,509	5,866

Total Leasing Activity

The initial leasing of development projects or vacant space in acquired properties is referred to as first generation lease activity. The leasing of such space that we have previously held under lease is referred to as second generation lease activity. The total leasing activity for our rental properties, expressed in square feet of leases signed during the period, is as follows for the three and six months ended June 30, 2016 and 2015, respectively (in thousands):

	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
New Leasing Activity - First Generation	1,573	1,194	4,327	2,940
New Leasing Activity - Second Generation	2,261	1,266	3,367	2,180
Renewal Leasing Activity	2,522	1,046	5,548	4,628
Total Consolidated Leasing Activity	6,356	3,506	13,242	9,748
Unconsolidated Joint Venture Leasing Activity	1,241	573	1,743	1,470

Total Including Unconsolidated Joint Venture Leasing Activity	7,597	4,079	14,985	11,218

New Second Generation Leases
The following table sets forth the estimated costs of tenant improvements and leasing commissions, on a per square foot basis, that we are obligated to fulfill under the new second generation leases signed for our rental properties during the three and six months ended June 30, 2016 and 2015, respectively:

Square Feet of New Second Generation Leases Signed (in thousands)	Average Term in Years	Estimated Tenant Improvement Cost per Square Foot	Leasing Commissions per Square Foot
2016			