

DUKE REALTY CORP
Form 10-Q
May 02, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

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: 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

(I.R.S. Employer

of Incorporation or Organization)

Identification Number)

600 East 96th Street, Suite 100

46240

Indianapolis, Indiana

(Zip Code)

(Address of Principal Executive Offices)

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 No Duke Realty Limited Partnership Yes No

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 No Duke Realty Limited Partnership Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 Accelerated filer Non-accelerated filer Smaller reporting company

Duke Realty Limited Partnership:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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 No Duke Realty Limited Partnership Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class

Edgar Filing: DUKE REALTY CORP - Form 10-Q

Outstanding Common Shares of Duke Realty Corporation at May 2,
2014

Common Stock, \$.01 par value per share 329,489,363

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended March 31, 2014 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 98.7% of the common partnership interests of the Partnership ("General Partner Units") as of March 31, 2014. The remaining 1.3% 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 also owns all of the issued and outstanding preferred partnership interests in the Partnership ("Preferred Units").

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 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
INDEX

	Page	
<u>Part I - Financial Information</u>		
<u>Item 1.</u>	<u>Financial Statements</u>	
	Duke Realty Corporation:	
	<u>Consolidated Balance Sheets - March 31, 2014 (Unaudited) and December 31, 2013</u>	3
	<u>Consolidated Statements of Operations and Comprehensive Income (Unaudited) - Three Months Ended March 31, 2014 and 2013</u>	4
	<u>Consolidated Statements of Cash Flows (Unaudited) - Three Months Ended March 31, 2014 and 2013</u>	5
	<u>Consolidated Statement of Changes in Equity (Unaudited) - Three Months Ended March 31, 2014</u>	6
	Duke Realty Limited Partnership:	
	<u>Consolidated Balance Sheets - March 31, 2014 (Unaudited) and December 31, 2013</u>	7
	<u>Consolidated Statements of Operations and Comprehensive Income (Unaudited) - Three Months Ended March 31, 2014 and 2013</u>	8
	<u>Consolidated Statements of Cash Flows (Unaudited) - Three Months Ended March 31, 2014 and 2013</u>	9
	<u>Consolidated Statement of Changes in Equity (Unaudited) - Three Months Ended March 31, 2014</u>	10
	Duke Realty Corporation and Duke Realty Limited Partnership:	
	<u>Notes to Consolidated Financial Statements (Unaudited)</u>	11
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	41
<u>Item 4.</u>	<u>Controls and Procedures</u>	42
<u>Part II - Other Information</u>		
<u>Item 1.</u>	<u>Legal Proceedings</u>	43
<u>Item 1A.</u>	<u>Risk Factors</u>	43
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	44
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	44
<u>Item 5.</u>	<u>Other Information</u>	44
<u>Item 6.</u>	<u>Exhibits</u>	45

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

DUKE REALTY CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except per share amounts)

	March 31, 2014 (Unaudited)	December 31, 2013
ASSETS		
Real estate investments:		
Land and improvements	\$1,457,690	\$1,438,007
Buildings and tenant improvements	5,605,272	5,531,726
Construction in progress	277,398	256,895
Investments in and advances to unconsolidated companies	336,060	342,947
Undeveloped land	570,718	590,052
	8,247,138	8,159,627
Accumulated depreciation	(1,419,088)	(1,368,406)
Net real estate investments	6,828,050	6,791,221
Real estate investments and other assets held-for-sale	34,826	57,466
Cash and cash equivalents	19,474	19,275
Accounts receivable, net of allowance of \$1,888 and \$1,576	34,763	26,173
Straight-line rent receivable, net of allowance of \$6,404 and \$9,350	126,286	118,251
Receivables on construction contracts, including retentions	27,833	19,209
Deferred financing costs, net of accumulated amortization of \$39,553 and \$37,016	33,764	36,250
Deferred leasing and other costs, net of accumulated amortization of \$305,316 and \$394,049	457,508	466,979
Escrow deposits and other assets	204,859	217,790
	\$7,767,363	\$7,752,614
LIABILITIES AND EQUITY		
Indebtedness:		
Secured debt	\$1,077,468	\$1,100,124
Unsecured debt	3,065,742	3,066,252
Unsecured line of credit	180,000	88,000
	4,323,210	4,254,376
Liabilities related to real estate investments held-for-sale	179	2,075
Construction payables and amounts due subcontractors, including retentions	72,695	69,380
Accrued real estate taxes	77,169	74,696
Accrued interest	36,468	52,824
Other accrued expenses	52,118	67,495
Other liabilities	138,598	142,589
Tenant security deposits and prepaid rents	50,264	44,550
Total liabilities	4,750,701	4,707,985
Shareholders' equity:		
Preferred shares (\$.01 par value); 5,000 shares authorized; 1,716 and 1,791 shares issued and outstanding	428,926	447,683

Edgar Filing: DUKE REALTY CORP - Form 10-Q

Common shares (\$.01 par value); 400,000 shares authorized; 328,480 and 326,399 shares issued and outstanding	3,285	3,264
Additional paid-in capital	4,649,914	4,620,964
Accumulated other comprehensive income	3,832	4,119
Distributions in excess of net income	(2,100,245	) (2,062,787)
Total shareholders' equity	2,985,712	3,013,243
Noncontrolling interests	30,950	31,386
Total equity	3,016,662	3,044,629
	\$7,767,363	\$7,752,614

See accompanying Notes to Consolidated Financial Statements

3

DUKE REALTY CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations and Comprehensive Income
For the three months ended March 31,
(in thousands, except per share amounts)
(Unaudited)

	2014	2013
Revenues:		
Rental and related revenue	\$237,350	\$209,879
General contractor and service fee revenue	55,820	47,404
	293,170	257,283
Expenses:		
Rental expenses	50,267	38,861
Real estate taxes	32,467	29,040
General contractor and other services expenses	47,271	38,341
Depreciation and amortization	98,059	92,993
	228,064	199,235
Other operating activities:		
Equity in earnings of unconsolidated companies	2,321	49,378
Gain on sale of properties	15,853	168
Gain on land sales	152	—
Undeveloped land carrying costs	(2,124)	(2,198)
Other operating expenses	(92)	(68)
General and administrative expenses	(14,694)	(13,145)
	1,416	34,135
Operating income	66,522	92,183
Other income (expenses):		
Interest and other income, net	351	153
Interest expense	(55,257)	(57,181)
Acquisition-related activity	(14)	643
Income from continuing operations before income taxes	11,602	35,798
Income tax expense	(2,674)	—
Income from continuing operations	8,928	35,798
Discontinued operations:		
Loss before gain on sales	(132)	(629)
Gain on sale of depreciable properties, net of tax	16,775	8,954
Income from discontinued operations	16,643	8,325
Net income	25,571	44,123
Dividends on preferred shares	(7,037)	(9,550)
Adjustments for redemption/repurchase of preferred shares	483	(5,932)
Net income attributable to noncontrolling interests	(334)	(598)
Net income attributable to common shareholders	\$18,683	\$28,043
Basic net income per common share:		
Continuing operations attributable to common shareholders	\$0.01	\$0.06
Discontinued operations attributable to common shareholders	0.05	0.03
Total	\$0.06	\$0.09
Diluted net income per common share:		
Continuing operations attributable to common shareholders	\$0.01	\$0.06
Discontinued operations attributable to common shareholders	0.05	0.03
Total	\$0.06	\$0.09
Weighted average number of common shares outstanding	327,106	314,936

Edgar Filing: DUKE REALTY CORP - Form 10-Q

Weighted average number of common shares and potential dilutive securities	331,716	319,571
Comprehensive income:		
Net income	\$25,571	\$44,123
Other comprehensive income (loss):		
Amortization of interest contracts	(287	) 457
Other	—	80
Total other comprehensive income (loss)	(287	) 537
Comprehensive income	\$25,284	\$44,660
See accompanying Notes to Consolidated Financial Statements		

4

DUKE REALTY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three months ended March 31,

(in thousands)

(Unaudited)

	2014	2013
Cash flows from operating activities:		
Net income	\$25,571	\$44,123
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of buildings and tenant improvements	71,393	70,548
Amortization of deferred leasing and other costs	26,871	29,232
Amortization of deferred financing costs	2,499	3,507
Straight-line rental income and expense, net	(5,974)	(4,839)
Gain on acquisitions	—	(962)
Gains on land and depreciated property sales, net of tax	(30,106)	(9,122)
Third-party construction contracts, net	411	11,138
Other accrued revenues and expenses, net	(33,911)	(26,261)
Operating distributions received in excess of (less than) equity in earnings from unconsolidated companies	2,383	(43,930)
Net cash provided by operating activities	59,137	73,434
Cash flows from investing activities:		
Development of real estate investments	(105,413)	(103,684)
Acquisition of real estate investments and related intangible assets	(17,224)	(35,495)
Acquisition of undeveloped land	(2,270)	(5,149)
Second generation tenant improvements, leasing costs and building improvements	(19,631)	(17,119)
Other deferred leasing costs	(8,706)	(11,079)
Other assets	5,539	(5,124)
Proceeds from land and depreciated property sales, net	70,673	61,931
Capital distributions from unconsolidated companies	2,546	89,237
Capital contributions and advances to unconsolidated companies	(420)	(4,846)
Net cash used for investing activities	(74,906)	(31,328)
Cash flows from financing activities:		
Proceeds from issuance of common shares, net	23,783	574,685
Payments for redemption/repurchase of preferred shares	(17,656)	(177,955)
Proceeds from unsecured debt	—	250,000
Payments on unsecured debt	(511)	(480)
Proceeds from secured debt financings	—	1,933
Payments on secured indebtedness including principal amortization	(21,471)	(17,486)
Borrowings (payments) on line of credit, net	92,000	(285,000)
Distributions to common shareholders	(55,596)	(54,678)
Distributions to preferred shareholders	(7,140)	(9,550)
Distributions to noncontrolling interests	(770)	(961)
Change in book overdrafts	3,629	(45,272)
Deferred financing costs	(300)	(4,064)
Net cash provided by financing activities	15,968	231,172
Net increase in cash and cash equivalents	199	273,278
Cash and cash equivalents at beginning of period	19,275	33,889
Cash and cash equivalents at end of period	\$19,474	\$307,167

Non-cash investing and financing activities:

Edgar Filing: DUKE REALTY CORP - Form 10-Q

Assumption of other liabilities in real estate acquisitions	\$76	\$50
Carrying amount of pre-existing ownership interest in acquired property	\$—	\$630
Conversion of Limited Partner Units to common shares	\$—	\$337
See accompanying Notes to Consolidated Financial Statements		

5

DUKE REALTY CORPORATION AND SUBSIDIARIES

Consolidated Statement of Changes in Equity

For the three months ended March 31, 2014

(in thousands, except per share data)

(Unaudited)

	Common Shareholders						Total
	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Distributions in Excess of Net Income	Non-Controlling Interests	
Balance at December 31, 2013	\$447,683	\$3,264	\$4,620,964	\$4,119	\$(2,062,787)	\$31,386	\$3,044,629
Net income	—	—	—	—	25,237	334	25,571
Other comprehensive income (loss)	—	—	—	(287)	—	—	(287)
Issuance of common shares	—	14	23,769	—	—	—	23,783
Stock-based compensation plan activity	—	7	4,563	—	(545)	—	4,025
Distributions to preferred shareholders	—	—	—	—	(7,037)	—	(7,037)
Repurchase of preferred shares	(18,757)	—	618	—	483	—	(17,656)
Distributions to common shareholders (\$0.17 per share)	—	—	—	—	(55,596)	—	(55,596)
Distributions to noncontrolling interests	—	—	—	—	—	(770)	(770)
Balance at March 31, 2014	\$428,926	\$3,285	\$4,649,914	\$3,832	\$(2,100,245)	\$30,950	\$3,016,662

See accompanying Notes to Consolidated Financial Statements

DUKE REALTY LIMITED PARTNERSHIP AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands)

	March 31, 2014 (Unaudited)	December 31, 2013
ASSETS		
Real estate investments:		
Land and improvements	\$1,457,690	\$1,438,007
Buildings and tenant improvements	5,605,272	5,531,726
Construction in progress	277,398	256,895
Investments in and advances to unconsolidated companies	336,060	342,947
Undeveloped land	570,718	590,052
	8,247,138	8,159,627
Accumulated depreciation	(1,419,088)	(1,368,406)
Net real estate investments	6,828,050	6,791,221
Real estate investments and other assets held-for-sale	34,826	57,466
Cash and cash equivalents	19,474	19,275
Accounts receivable, net of allowance of \$1,888 and \$1,576	34,763	26,173
Straight-line rent receivable, net of allowance of \$6,404 and \$9,350	126,286	118,251
Receivables on construction contracts, including retentions	27,833	19,209
Deferred financing costs, net of accumulated amortization of \$39,553 and \$37,016	33,764	36,250
Deferred leasing and other costs, net of accumulated amortization of \$305,316 and \$394,049	457,508	466,979
Escrow deposits and other assets	204,859	217,790
	\$7,767,363	\$7,752,614
LIABILITIES AND EQUITY		
Indebtedness:		
Secured debt	\$1,077,468	\$1,100,124
Unsecured debt	3,065,742	3,066,252
Unsecured line of credit	180,000	88,000
	4,323,210	4,254,376
Liabilities related to real estate investments held-for-sale	179	2,075
Construction payables and amounts due subcontractors, including retentions	72,695	69,380
Accrued real estate taxes	77,169	74,696
Accrued interest	36,468	52,824
Other accrued expenses	52,362	67,739
Other liabilities	138,598	142,589
Tenant security deposits and prepaid rents	50,264	44,550
Total liabilities	4,750,945	4,708,229
Partners' equity:		
General Partner:		
Common equity (328,480 and 326,399 General Partner Units issued and outstanding)	2,556,883	2,565,370

Edgar Filing: DUKE REALTY CORP - Form 10-Q

Preferred equity (1,716 and 1,791 Preferred Units issued and outstanding)	428,926	447,683
	2,985,809	3,013,053
Limited Partners' common equity (4,387 and 4,387 Limited Partner Units issued and outstanding)	19,662	20,158
Accumulated other comprehensive income	3,832	4,119
Total partners' equity	3,009,303	3,037,330
Noncontrolling interests	7,115	7,055
Total equity	3,016,418	3,044,385
	\$7,767,363	\$7,752,614

See accompanying Notes to Consolidated Financial Statements

7

DUKE REALTY LIMITED PARTNERSHIP AND SUBSIDIARIES

Consolidated Statements of Operations and Comprehensive Income

For the three months ended March 31,

(in thousands, except per unit amounts)

(Unaudited)

	2014	2013
Revenues:		
Rental and related revenue	\$237,350	\$209,879
General contractor and service fee revenue	55,820	47,404
	293,170	257,283
Expenses:		
Rental expenses	50,267	38,861
Real estate taxes	32,467	29,040
General contractor and other services expenses	47,271	38,341
Depreciation and amortization	98,059	92,993
	228,064	199,235
Other operating activities:		
Equity in earnings of unconsolidated companies	2,321	49,378
Gain on sale of properties	15,853	168
Gain on land sales	152	—
Undeveloped land carrying costs	(2,124)	(2,198)
Other operating expenses	(92)	(68)
General and administrative expenses	(14,694)	(13,145)
	1,416	34,135
Operating income	66,522	92,183
Other income (expenses):		
Interest and other income, net	351	153
Interest expense	(55,257)	(57,181)
Acquisition-related activity	(14)	643
Income from continuing operations before income taxes	11,602	35,798
Income tax expense	(2,674)	—
Income from continuing operations	8,928	35,798
Discontinued operations:		
Loss before gain on sales	(132)	(629)
Gain on sale of depreciable properties, net of tax	16,775	8,954
Income from discontinued operations	16,643	8,325
Net income	25,571	44,123
Distributions on Preferred Units	(7,037)	(9,550)
Adjustments for redemption/repurchase of Preferred Units	483	(5,932)
Net income attributable to noncontrolling interests	(84)	(206)
Net income attributable to common unitholders	\$18,933	\$28,435
Basic net income per Common Unit:		
Continuing operations attributable to common unitholders	\$0.01	\$0.06
Discontinued operations attributable to common unitholders	0.05	0.03
Total	\$0.06	\$0.09
Diluted net income per Common Unit:		
Continuing operations attributable to common unitholders	\$0.01	\$0.06
Discontinued operations attributable to common unitholders	0.05	0.03
Total	\$0.06	\$0.09
Weighted average number of Common Units outstanding	331,493	319,341

Edgar Filing: DUKE REALTY CORP - Form 10-Q

Weighted average number of Common Units and potential dilutive securities	331,716	319,571
Comprehensive income:		
Net income	\$25,571	\$44,123
Other comprehensive income (loss):		
Amortization of interest contracts	(287	) 457
Other	—	80
Total other comprehensive income (loss)	(287	) 537
Comprehensive income	\$25,284	\$44,660
See accompanying Notes to Consolidated Financial Statements		

8

DUKE REALTY LIMITED PARTNERSHIP AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three months ended March 31,

(in thousands)

(Unaudited)

	2014	2013
Cash flows from operating activities:		
Net income	\$25,571	\$44,123
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of buildings and tenant improvements	71,393	70,548
Amortization of deferred leasing and other costs	26,871	29,232
Amortization of deferred financing costs	2,499	3,507
Straight-line rental income and expense, net	(5,974)	(4,839)
Gain on acquisitions	—	(962)
Gains on land and depreciated property sales, net of tax	(30,106)	(9,122)
Third-party construction contracts, net	411	11,138
Other accrued revenues and expenses, net	(33,911)	(26,232)
Operating distributions received in excess of (less than) equity in earnings from unconsolidated companies	2,383	(43,930)
Net cash provided by operating activities	59,137	73,463
Cash flows from investing activities:		
Development of real estate investments	(105,413)	(103,684)
Acquisition of real estate investments and related intangible assets	(17,224)	(35,495)
Acquisition of undeveloped land	(2,270)	(5,149)
Second generation tenant improvements, leasing costs and building improvements	(19,631)	(17,119)
Other deferred leasing costs	(8,706)	(11,079)
Other assets	5,539	(5,124)
Proceeds from land and depreciated property sales, net	70,673	61,931
Capital distributions from unconsolidated companies	2,546	89,237
Capital contributions and advances to unconsolidated companies	(420)	(4,846)
Net cash used for investing activities	(74,906)	(31,328)
Cash flows from financing activities:		
Contributions from the General Partner	23,783	574,685
Payments for redemption/repurchase of Preferred Units	(17,656)	(177,955)
Proceeds from unsecured debt	—	250,000
Payments on unsecured debt	(511)	(480)
Proceeds from secured debt financings	—	1,933
Payments on secured indebtedness including principal amortization	(21,471)	(17,486)
Borrowings (payments) on line of credit, net	92,000	(285,000)
Distributions to common unitholders	(56,342)	(55,458)
Distributions to preferred unitholders	(7,140)	(9,550)
Distributions to noncontrolling interests	(24)	(210)
Change in book overdrafts	3,629	(45,272)
Deferred financing costs	(300)	(4,064)
Net cash provided by financing activities	15,968	231,143
Net increase in cash and cash equivalents	199	273,278
Cash and cash equivalents at beginning of period	19,275	33,889
Cash and cash equivalents at end of period	\$19,474	\$307,167

Non-cash investing and financing activities:

Edgar Filing: DUKE REALTY CORP - Form 10-Q

Assumption of other liabilities in real estate acquisitions	\$76	\$50
Carrying amount of pre-existing ownership interest in acquired property	\$—	\$630
Conversion of Limited Partner Units to common shares of the General Partner	\$—	\$337
See accompanying Notes to Consolidated Financial Statements		

9

DUKE REALTY LIMITED PARTNERSHIP AND SUBSIDIARIES

Consolidated Statement of Changes in Equity

For the three months ended March 31, 2014

(in thousands, except per unit data)

(Unaudited)

	Common Unitholders		Limited Partners' Common Equity	Accumulated Other Comprehensive Income	Total Partners' Equity	Noncontrolling Interests	Total Equity	
	General Partner Common Equity	Preferred Equity						
Balance at December 31, 2013	\$2,565,370	\$447,683	\$20,158	\$4,119	\$3,037,330	\$7,055	\$3,044,385	
Net income	18,200	7,037	250	—	25,487	84	25,571	
Other comprehensive income (loss)	—	—	—	(287) (287) —	(287)
Capital contribution from the General Partner	23,783	—	—	—	23,783	—	23,783	
Stock-based compensation plan activity	4,025	—	—	—	4,025	—	4,025	
Distributions to Preferred Unitholders	—	(7,037) —	—	(7,037) —	(7,037)
Repurchase of Preferred Units	1,101	(18,757) —	—	(17,656) —	(17,656)
Distributions to Partners (\$0.17 per Common Unit)	(55,596) —	(746) —	(56,342) —	(56,342)
Distributions to noncontrolling interests	—	—	—	—	—	(24) (24)
Balance at March 31, 2014	\$2,556,883	\$428,926	\$19,662	\$3,832	\$3,009,303	\$7,115	\$3,016,418	

See accompanying Notes to Consolidated Financial Statements

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 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 2013 year-end consolidated balance sheet data included in this Quarterly Report on Form 10-Q (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, 2013, 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 combined Annual Report on Form 10-K of the General Partner and the Partnership for the year ended December 31, 2013. 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 98.7% of the common partnership interests of the Partnership ("General Partner Units") at March 31, 2014. The remaining 1.3% 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 Fourth 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. The General Partner also owns preferred partnership interests in the Partnership ("Preferred Units").

We own and operate a portfolio primarily consisting of industrial, office and medical office properties and provide 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 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 Pronouncement

In April 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU 2014-08"). Under ASU 2014-08, only disposals representing a strategic shift in operations (for example, a disposal of a major geographic area or a major line of business) will be presented as discontinued operations, while significant continuing involvement with such dispositions will no longer preclude discontinued operations classification. As current GAAP generally requires companies that sell a single investment property to report the sale as a discontinued operation, the implementation of ASU 2014-08 will result in us reporting only sales that represent strategic shifts in operations as discontinued operations. ASU 2014-08 will also require additional disclosures for discontinued operations as well as for material property dispositions that do not meet the new criteria for discontinued operation classification. ASU 2014-08 is effective for fiscal years beginning on or after December 15, 2014, with early adoption permitted only for disposals or classifications as held for sale that have not been reported in financial statements previously issued or available for issuance. It is our intention to adopt ASU 2014-08 during the three-month period ended June 30, 2014.

3. Reclassifications

Certain amounts in the accompanying consolidated financial statements for 2013 have been reclassified to conform to the 2014 consolidated financial statement presentation.

4. Variable Interest Entities

At March 31, 2014, there were two unconsolidated joint ventures that met the criteria to be considered variable interest entities ("VIEs"). These two unconsolidated joint ventures were formed with the sole purpose of developing, constructing, leasing, marketing and selling or operating properties. The business activities of these unconsolidated joint ventures have been financed through a combination of equity contributions, partner/member loans, and third-party debt that is guaranteed by a combination of us and the other partner/member of each entity. All significant decisions for these unconsolidated joint ventures, including those decisions that most significantly impact each venture's economic performance, require unanimous approval of each joint venture's partners or members. In certain cases, these decisions also require lender approval. Unanimous approval requirements for these unconsolidated joint ventures include entering into new leases, setting annual operating budgets, selling underlying properties, and incurring additional indebtedness. Because no single entity exercises control over the decisions that most significantly affect each joint venture's economic performance, we determined there to be no individual primary beneficiary and that the equity method of accounting is appropriate.

The following table provides a summary of the carrying value in our consolidated balance sheet, as well as our maximum loss exposure under guarantees for the two unconsolidated subsidiaries that we have determined to be VIEs at March 31, 2014 (in millions):

	Carrying Value	Maximum Loss Exposure
Investment in unconsolidated companies	\$5.2	\$ 5.2
Guarantee obligations (1)	\$(18.4	) \$ (112.8)

We are party to guarantees of the third-party debt of these joint ventures, and our maximum loss exposure is equal to the maximum monetary obligation pursuant to the guarantee agreements. We have also recorded a liability for our probable future obligation under a guarantee to the lender of one of these ventures, which is included within the carrying value of our guarantee obligations. Pursuant to an agreement with the lender, we may make partner loans to this joint venture that will reduce our maximum guarantee obligation on a dollar-for-dollar basis. The carrying value of our recorded guarantee obligations is included in other liabilities in our Consolidated Balance Sheets. Our maximum loss exposure for guarantees of joint venture indebtedness, including guarantees of the debt of joint ventures that are not VIEs, totaled \$196.4 million at March 31, 2014.

5. Acquisitions and Dispositions

2014 Acquisitions

We acquired one operating property, an industrial building in Atlanta, Georgia, during the three months ended March 31, 2014. The following table summarizes the fair value of amounts recognized for each major class of asset and liability (in thousands) for this acquisition:

Real estate assets	\$ 15,972
Lease related intangible assets	1,578
Total acquired assets	17,550
Other liabilities	76
Total assumed liabilities	76
Fair value of acquired net assets	\$ 17,474

The lease in the acquired property had a remaining life at acquisition of approximately 3.8 years.

Acquisition-Related Activity

The acquisition-related activity in our Consolidated Statements of Operations and Comprehensive Income for the three months ended March 31, 2014 and 2013 consisted of transaction costs related to completed acquisitions, which are expensed as incurred, as well as gains or losses related to acquisitions where we had a pre-existing non-controlling ownership interest. We expensed \$14,000 and \$319,000, respectively, for acquisition-related transaction costs incurred in the three months ended March 31, 2014 and 2013. During the three months ended March 31, 2013, we also recognized a gain of \$962,000 on the pre-existing ownership interest that we held in an industrial property we acquired in that period.

Dispositions

We disposed of certain consolidated income-producing real estate assets and undeveloped land and received net cash proceeds of \$70.7 million and \$61.9 million during the three months ended March 31, 2014 and 2013, respectively. Income tax expense from continuing operations of \$2.7 million was the result of the sale of a property that was partially owned by our taxable REIT subsidiary but, due to continuing involvement in managing the property, was not classified as a discontinued operation. Income tax expense included in discontinued operations of \$3.0 million was also the result of the sale of a property that was partially owned by our taxable REIT subsidiary where we have no continuing involvement.

6. Indebtedness

All debt is held directly or indirectly by the Partnership. The General Partner does not have any indebtedness, but does guarantee all 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 three months ended March 31, 2014 (in thousands):

Edgar Filing: DUKE REALTY CORP - Form 10-Q

	Book Value at 12/31/13	Book Value at 3/31/14	Fair Value at 12/31/13	Issuances and Assumptions	Payments/Payoffs	Adjustments to Fair Value	Fair Value at 3/31/14
Fixed rate secured debt	\$ 1,081,035	\$ 1,058,485	\$ 1,145,717	\$—	\$ (21,365)	\$ 11,244	\$ 1,135,596
Variable rate secured debt	19,089	18,983	19,089	—	(106)	—	18,983
Unsecured debt	3,066,252	3,065,742	3,250,518	—	(511)	39,208	3,289,215
Unsecured line of credit	88,000	180,000	88,383	92,000	—	468	180,851
Total	\$ 4,254,376	\$ 4,323,210	\$ 4,503,707	\$ 92,000	\$ (21,982)	\$ 50,920	\$ 4,624,645

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 3.40% to 4.40%, 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 three months ended March 31, 2014, we repaid one secured loan, totaling \$18.1 million. The loan had a stated interest rate of 5.14%.

Unsecured Debt

At March 31, 2014, with the exception of one variable rate term note that was issued in March 2013, 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 96.00% to 124.00% of face value.

We utilize a discounted cash flow methodology in order to estimate the fair value of our \$250.0 million variable rate 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 represents the difference between the book value and the fair value. Our estimate of a current market rate was based on estimated market spreads and the quoted yields on federal government treasury securities with similar maturity dates. Our estimate of the current market rate for our variable rate term loan was 1.36% and was based primarily upon Level 3 inputs.

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 March 31, 2014.

Unsecured Line of Credit

Our unsecured line of credit at March 31, 2014 is described as follows (in thousands):

Description	Maximum Capacity	Maturity Date	Outstanding Balance at March 31, 2014
Unsecured Line of Credit - Partnership	\$850,000	December 2015	\$ 180,000

The Partnership's unsecured line of credit has an interest rate on borrowings of LIBOR plus 1.25% (equal to 1.41% for outstanding borrowings at March 31, 2014) and a maturity date of December 2015. 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 \$1.25 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 March 31, 2014, 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. 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 represents 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. The current market rate of 1.41% that we utilized was internally estimated; therefore, we have concluded that our determination of fair value for our unsecured line of credit was primarily based upon a Level 3 input.

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

General Partner

In the first three months of 2014, pursuant to the share repurchase plan approved by our board of directors, the General Partner repurchased 750,243 preferred shares from among our three outstanding series. The preferred shares repurchased had a total redemption value of approximately \$18.8 million and were repurchased for \$17.7 million. In conjunction with the repurchases, approximately \$618,000 of initial issuance costs, the ratable portion of such costs associated with the repurchased shares, were charged against income attributable to common shareholders. An adjustment of approximately \$483,000 was included as an increase to income attributable to common shareholders. During the three months ended March 31, 2014, the General Partner issued 1.4 million common shares pursuant to its at the market equity program, generating gross proceeds of approximately \$24.1 million and, after deducting commissions and other costs, net proceeds of approximately \$23.8 million. The proceeds from these offerings were used for general corporate purposes, which include the funding of development costs.

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 elimination, for the three months ended March 31, 2014 and 2013, respectively (in thousands):

	Three Months Ended	
	March 31,	
	2014	2013
Management fees	\$2,219	\$2,456
Leasing fees	344	555
Construction and development fees	965	1,067

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 months ended March 31, 2014 and 2013, respectively (in thousands):

	Three Months Ended	
	March 31,	
	2014	2013
General Partner		
Net income attributable to common shareholders	\$18,683	\$28,043
Less: Dividends on participating securities	(645)	(688)
Basic net income attributable to common shareholders	18,038	27,355
Noncontrolling interest in earnings of common unitholders	250	392
Diluted net income attributable to common shareholders	\$18,288	\$27,747
Weighted average number of common shares outstanding	327,106	314,936
Weighted average Limited Partner Units outstanding	4,387	4,405
Other potential dilutive shares	223	230
Weighted average number of common shares and potential dilutive securities	331,716	319,571
Partnership		
Net income attributable to common unitholders	\$18,933	\$28,435
Less: Distributions on participating securities	(645)	(688)
Basic and diluted net income attributable to common unitholders	\$18,288	\$27,747
Weighted average number of Common Units outstanding	331,493	319,341
Other potential dilutive units	223	230
Weighted average number of Common Units and potential dilutive securities	331,716	319,571

Substantially all potential shares related to our stock-based compensation plans are anti-dilutive for all periods presented. 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 March 31,	
	2014	2013
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	1,215	1,378
Outstanding participating securities	3,841	4,078

10. Segment Reporting

Reportable Segments

We have four reportable operating segments at March 31, 2014, the first three of which consist of the ownership and rental of (i) industrial, (ii) office and (iii) medical office real estate investments. The operations of our industrial, office and medical office properties, along with our retail properties, are collectively referred to as "Rental Operations." Our retail properties, as well as any other properties not included in our reportable segments, do not by themselves meet the quantitative thresholds for separate presentation as a reportable segment and are referred to as non-reportable Rental Operations. The fourth 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 months ended March 31, 2014 and 2013, respectively (in thousands):

	Three Months Ended March 31,	
	2014	2013
Revenues		
Rental Operations:		
Industrial	\$ 134,002	\$ 114,700
Office	66,972	61,197
Medical Office	33,310	30,484
Non-reportable Rental Operations	2,087	2,301
Service Operations	55,820	47,404
Total segment revenues	292,191	256,086
Other revenue	979	1,197
Consolidated revenue from continuing operations	293,170	257,283
Discontinued operations	1,368	16,404
Consolidated revenue	\$ 294,538	\$ 273,687

Supplemental Performance Measure

In prior periods, we evaluated the profitability of our reportable segments using net earnings excluding depreciation and other items that were not allocated to our operating segments. As the result of a recent shift in the focus of our executive management team on the metrics used to evaluate the performance of, and to allocate resources among, our reportable segments, we have elected to change our segment measurement of profitability beginning with the period ended March 31, 2014. We have also revised prior period information in order to provide period-over-period comparability. Property level net operating income, on a cash basis ("PNOI") is the supplemental performance measure that we now 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 excludes certain

items such as straight-line rental income and expense, lease buyout revenues, and the amortization of lease concessions and above and below market rents (collectively referred to as "Rental Operations revenues and expenses excluded from PNOI," as shown in the table below). 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 table below) 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 months ended March 31, 2014 and 2013, respectively (in thousands and excluding discontinued operations):

	Three Months Ended March 31,	
	2014	2013
PNOI		
Industrial	\$91,909	\$81,279
Office	36,264	36,816
Medical Office	20,577	16,502
Non-reportable Rental Operations	1,105	971
Total PNOI	149,855	135,568
Earnings from Service Operations	8,549	9,063
Rental Operations revenues and expenses excluded from PNOI:		
Straight-line rental income and expense, net	6,463	4,270
Revenues related to lease buyouts	2,695	1,993
Amortization of lease concessions and above and below market rents	(2,467	) (1,897
Intercompany rents and other adjusting items	(1,142	) (1,034
PNOI from sold properties included in continuing operations	(96	) 2,767
Non-Segment Items:		
Equity in earnings of unconsolidated companies	2,321	49,378
Interest expense	(55,257	) (57,181
Depreciation expense	(98,059	) (92,993
Gain on sale of properties	15,853	168
Interest and other income, net	351	153
Other operating expenses	(92	) (68
General and administrative expenses	(14,694	) (13,145
Gain on land sales	152	—
Undeveloped land carrying costs	(2,124	) (2,198
Acquisition-related activity	(14	) 643
Other non-segment revenues and expenses, net	(692	) 311
Income from continuing operations before income taxes	\$11,602	\$35,798

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.

Assets by Reportable Segment

The assets for each of the reportable segments at March 31, 2014 and December 31, 2013 were as follows (in thousands):

	March 31, 2014	December 31, 2013
Assets		
Rental Operations:		
Industrial	\$4,438,376	\$4,414,740
Office	1,527,997	1,524,501
Medical Office	1,155,112	1,170,420
Non-reportable Rental Operations	79,899	81,056
Service Operations	151,724	145,222
Total segment assets	7,353,108	7,335,939
Non-segment assets	414,255	416,675
Consolidated assets	\$7,767,363	\$7,752,614

11. Discontinued Operations and Assets Held for Sale

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

	Held for Sale at March 31, 2014	Sold in 2014	Sold in 2013	Total
Industrial	2	9	6	17
Office	0	0	12	12
Medical Office	1	1	6	8
Retail	0	0	1	1
Total properties included in discontinued operations	3	10	25	38
Properties excluded from discontinued operations	0	1	13	14
Total properties sold or classified as held-for-sale	3	11	38	52

We allocate 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.

The following table illustrates the operations of the buildings reflected in discontinued operations for the three months ended March 31, 2014 and 2013, respectively (in thousands):

	Three Months Ended March 31,	
	2014	2013
Revenues	\$1,368	\$16,404
Operating expenses	(913)	(5,986)
Depreciation and amortization	(205)	(6,787)
Operating income	250	3,631
Interest expense	(382)	(4,260)
Loss before gain on sales	(132)	(629)
Gain on sale of depreciable properties	19,752	8,954
Income from discontinued operations before income taxes	19,620	8,325
Income tax expense	(2,977)	—
Income from discontinued operations	\$16,643	\$8,325

The income tax expense included in discontinued operations during the three months ended March 31, 2014 was triggered by the sale of a property that was partially owned by our taxable REIT subsidiary.

The income tax expense from continuing operations of \$2.7 million for the three months ended March 31, 2014, as presented in the Consolidated Statements of Operations and Comprehensive Income, was related to the sale of another property that was partially owned by our taxable REIT subsidiary but, due to continuing involvement in managing the property, was not classified as a discontinued operation.

Dividends or distributions on preferred shares or Preferred Units and adjustments for the redemption or repurchase of preferred shares or Preferred Units are allocated entirely to continuing operations for both the General Partner and the Partnership.

Allocation of Noncontrolling Interests - General Partner

The following table illustrates the General Partner's share of the income (loss) attributable to common shareholders from continuing operations and discontinued operations, reduced by the allocation of income or loss between continuing and discontinued operations to the Limited Partner Units, for the three months ended March 31, 2014 and 2013, respectively (in thousands):

	Three Months Ended March 31,	
	2014	2013
Income from continuing operations attributable to common shareholders	\$2,260	\$19,833
Income from discontinued operations attributable to common shareholders	16,423	8,210
Net income attributable to common shareholders	\$18,683	\$28,043

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 March 31, 2014, we classified three in-service properties as held-for-sale, which were included in discontinued operations, due to our intention and ability to sell these properties in the second quarter of 2014. The following table illustrates aggregate balance sheet information of these properties at March 31, 2014 (in thousands):

	March 31, 2014
Real estate investment, net	\$29,316
Other assets	5,510
Total assets held-for-sale	\$34,826
Accrued expenses	\$132
Other liabilities	47
Total liabilities held-for-sale	\$179

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 April 30, 2014:

Class of stock/units	Quarterly Amount per Share or Unit	Record Date	Payment Date
Common	\$0.17	May 15, 2014	May 30, 2014
Preferred (per depositary share or unit):			
Series J	\$0.414063	May 15, 2014	May 30, 2014
Series K	\$0.406250	May 15, 2014	May 30, 2014
Series L	\$0.412500	May 15, 2014	May 30, 2014

Amendments to Articles of Incorporation - General Partner

At the annual meeting of the General Partner's shareholders, held on April 30, 2014, the shareholders approved an increase in the number of authorized shares of the General Partner's common stock from 400 million to 600 million and the establishment of certain detailed stock ownership and transfer restrictions intended to enable the General Partner to better protect its status as a REIT.

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 Quarterly Report on Form 10-Q (this "Report") and the consolidated financial statements and notes thereto, contained in Part IV, Item 15 of our combined Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission (the "SEC") on February 21, 2014 for Duke Realty Corporation (the "General Partner") and Duke Realty Limited Partnership (the "Partnership"). As used herein, 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.

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 real estate investment trust ("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 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 combined Annual Report on Form 10-K for the fiscal year ended December 31, 2013, which we filed with the SEC on February 21, 2014 for the General Partner and the Partnership. 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 2013 Annual Report on Form 10-K.

At March 31, 2014, we:

Owned or jointly controlled 747 industrial, office, medical office and other properties, of which 722 properties with approximately 146.6 million square feet were in service and 25 properties with more than 7.5 million square feet were under development. The 722 in-service properties were comprised of 616 consolidated properties with more than 124.1 million square feet and 106 jointly controlled unconsolidated properties with more than 22.4 million square feet. The 25 properties under development consisted of 23 consolidated properties with approximately 5.8 million square feet and two jointly controlled unconsolidated properties with approximately 1.8 million square feet.

Owned, including through ownership interests in unconsolidated joint ventures, more than 4,000 acres of land and controlled more than 1,600 acres through purchase options.

A key component of our overall strategy is to increase our investment in quality industrial properties in both existing and select new markets and to reduce our investment in suburban office properties and other non-strategic assets.

We have four reportable operating segments at March 31, 2014, the first three of which consist of the ownership and rental of (i) industrial, (ii) office and (iii) medical office real estate investments. The operations of our industrial, office and medical office properties, along with our retail properties, are collectively referred to as "Rental Operations." Our retail properties, as well as any other properties not included in our reportable segments, do not by themselves meet the quantitative thresholds for separate presentation as a reportable segment. The fourth 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 March 31, 2014 and 2013, respectively (in thousands, except percentage data):

Type	Total Square Feet		Percent of Total Square Feet		Percent Leased*		Average Annual Net Effective Rent**	
	2014	2013	2014	2013	2014	2013	2014	2013
Industrial	104,590	94,859	84.2	% 81.7	% 94.9	% 93.1	% \$3.93	\$3.85
Office	14,628	15,574	11.8	% 13.4	% 87.9	% 84.2	% \$13.45	\$13.32
Medical Office	4,580	5,011	3.7	% 4.3	% 93.2	% 90.6	% \$22.93	\$21.70
Other	348	739	0.3	% 0.6	% 85.7	% 85.8	% \$19.75	\$24.12
Total Consolidated	124,146	116,183	100.0	% 100.0	% 94.0	% 91.8	% \$5.72	\$5.90
Unconsolidated Joint Ventures	22,413	21,624			94.1	% 93.9	% \$8.15	\$7.29
Total Including Unconsolidated Joint Ventures	146,559	137,807			94.0	% 92.1	% \$5.85	\$5.99

*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.

Leasing activity within our existing portfolio of properties as well as, to a lesser extent, acquisitions of fully leased industrial properties through the course of 2013 drove the increase in our total percent leased from March 31, 2013.

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 March 31, 2014, (in thousands):

	Consolidated Properties	Unconsolidated Joint Venture Properties	Total Including Unconsolidated Joint Venture Properties
Vacant square feet at December 31, 2013	7,368	1,165	8,533
Dispositions	(22	) (30	) (52
Expirations	2,212	298	2,510
Early lease terminations	1,280	64	1,344
Property structural changes/other	6	—	6
Leasing of previously vacant space	(3,379	) (179	) (3,558
Vacant square feet at March 31, 2014	7,465	1,318	8,783

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 consolidated rental properties, expressed in square feet of leases

signed during the period, is as follows for the three months ended March 31, 2014 and 2013, respectively (in thousands):

	Three Months Ended March 31,	
	2014	2013
New Leasing Activity - First Generation	1,439	1,359
New Leasing Activity - Second Generation	2,544	2,266
Renewal Leasing Activity	1,677	1,992
Total Consolidated Leasing Activity	5,660	5,617
Unconsolidated Joint Venture Leasing Activity	370	735
Total Including Unconsolidated Joint Venture Leasing Activity	6,030	6,352

New leasing activity, for second generation leases, increased in part due to back-filling vacant industrial space within our Atlanta and Savannah, Georgia, properties. The lower volume of renewal leases executed during the three months ended March 31, 2014, for consolidated rental properties, was mainly the result of approximately 1.8 million less square feet being up for renewal than during the three months ended March 31, 2013.

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 months ended March 31, 2014 and 2013, respectively (square feet data in thousands):

	Square Feet of New Second Generation Leases Signed		Average Term in Years		Estimated Tenant Improvement Cost per Square Foot		Leasing Commissions per Square Foot	
	2014	2013	2014	2013	2014	2013	2014	2013
Three Months								
Industrial	2,382	2,066	7.5	5.7	\$2.84	\$2.56	\$1.94	\$1.55
Office	148	177	5.7	5.6	\$19.25	\$10.39	\$5.16	\$5.74
Medical Office	14	23	6.0	4.4	\$20.68	\$5.74	\$8.68	\$0.56
Total Consolidated	2,544	2,266	7.4	5.7	\$3.89	\$3.21	\$2.16	\$1.86
Unconsolidated Joint Ventures	73	340	2.3	4.5	\$4.45	\$3.00	\$3.82	\$1.55
Total Including Unconsolidated Joint Ventures	2,617	2,606	7.2	5.6	\$3.91	\$3.18	\$2.21	\$1.82

Lease Renewals

The following table summarizes our lease renewal activity within our rental properties for the three months ended March 31, 2014 and 2013, respectively (square feet data in thousands):

Edgar Filing: DUKE REALTY CORP - Form 10-Q

	Square Feet of Leases Renewed		Percent of Expiring Leases Renewed		Average Term in Years		Growth (Decline) in Net Effective Rents*		Estimated Tenant Improvement Cost per Square Foot		Leasing Commissions per Square Foot		
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	
Three Months													
Industrial	1,511	1,638	66.1 %	42.6 %	4.1	4.0	8.1 %	1.7 %	\$0.26	\$0.39	\$0.65	\$0.61	
Office	148	349	57.8 %	76.6 %	4.0	5.8	6.3 %	(2.3)%	\$4.46	\$5.16	\$3.35	\$5.26	
Medical Office	18	5	55.4 %	8.5 %	5.0	3.0	20.8 %	(0.8)%	—	\$0.10	\$4.00	\$1.03	
Total Consolidated	1,677	1,992	65.1 %	45.7 %	4.1	4.3	8.2 %	— %	\$0.62	\$1.22	\$0.93	\$1.43	
Unconsolidated Joint Ventures	284	384	63.5 %	72.7 %	2.3	3.0	6.9 %	9.0 %	\$0.27	\$2.27	\$0.68	\$1.50	
Total Including Unconsolidated Joint Ventures	1,961	2,376	64.9 %	48.6 %	3.8	4.1	7.9 %	1.9 %	\$0.57	\$1.39	\$0.89	\$1.44	

* Represents the percentage change in net effective rent between the original leases and the renewal leases. Net effective rents represent average annual base rental payments, on a straight-line basis for the term of each lease, excluding operating expense reimbursements.

We were able to backfill a portion of our industrial leases that expired in 2014. When considering backfill leases, and the lease-up of vacant space, we increased in-service occupancy for our consolidated industrial properties to 94.9% at March 31, 2014, from 93.1% at March 31, 2013. Growth in net effective rents on renewal leases improved, when compared to activity during the three months ended March 31, 2013, and reflects what we believe to be increased asking rents across many of our markets.

Lease Expirations

Our ability to maintain and improve occupancy rates and net effective rents primarily depends upon our continuing ability to re-lease expiring space. The table below reflects our consolidated in-service portfolio lease expiration schedule, including the number of expiring leases, as well as the square footage and annualized net effective rent for expiring leases by property type, at March 31, 2014 (in thousands, except percentage data and number of leases):

Edgar Filing: DUKE REALTY CORP - Form 10-Q

Year of Expiration	Total Consolidated Portfolio			Industrial	Office			Medical	Office	Other		
	Square Feet	Ann. Rent Revenue*	No. of Leases	Square Feet	Ann. Rent Revenue*	Square Feet	Ann. Rent Revenue*	Square Feet	Ann. Rent Revenue*	Square Feet	Ann. Rent Revenue*	
Remainder of 2014	7,554	\$37,520	277	6,460	\$24,478	985	\$11,253	105	\$1,669	4	\$120	
2015	12,713	63,955	341	10,985	41,362	1,663	21,265	57	1,152	8	176	
2016	14,667	74,647	370	12,645	46,587	1,794	23,453	209	4,250	19	357	
2017	14,326	74,653	318	12,663	49,986	1,407	19,102	183	3,842	73	1,723	
2018	12,525	75,548	298	10,188	39,124	1,872	25,145	388	9,807	77	1,472	
2019	11,660	65,132	236	9,860	38,354	1,531	20,088	257	6,406	12	284	
2020	10,807	61,512	128	9,354	37,659	986	14,576	457	9,020	10	257	
2021	7,443	42,451	114	6,280	24,984	912	11,613	238	5,582	13	272	
2022	5,920	29,731	68	5,333	18,230	246	4,339	319	6,715	22	447	
2023	2,883	24,489	57	2,101	10,518	465	7,366	311	6,456	6	149	
2024 and Thereafter	16,183	117,592	109	13,385	59,253	1,003	14,751	1,743	42,946	52	642	
Total Leased	116,681	\$667,230	2,316	99,254	\$390,535	12,864	\$172,951	4,267	\$97,845	296	\$5,899	
Total Portfolio Square Feet	124,146			104,590			14,628			4,580		348
Percent Leased	94.0 %			94.9 %			87.9 %			93.2 %		85.7 %

* Annualized rental revenue represents average annual base rental payments, 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. Annualized rental revenue excludes additional amounts paid by tenants as reimbursement for operating expenses.

Information on current market rents can be difficult to obtain, is highly subjective, and is often not directly comparable between properties. As a result, we believe the increase or decrease in net effective rent on lease renewals, as previously defined, is the most objective and meaningful relationship between rents on leases expiring in the near-term and current market rents.

Acquisition Activity

Our decision process in determining whether or not to acquire a target property or portfolio of properties involves several factors, including expected rent growth, multiple yield metrics, property locations and expected demographic growth in each location, current occupancy of the target properties, tenant profile and remaining terms of the in-place leases in the target properties. We pursue both brokered and non-brokered acquisitions, and it is difficult to predict which markets and product types may present acquisition opportunities that align with our strategy. Because of the numerous factors considered in our acquisition decisions, we do not establish specific target yields for future acquisitions.

We acquired one property during the three months ended March 31, 2014 and 17 properties during the year ended December 31, 2013. The following table summarizes the acquisition price, percent leased at time of acquisition and in-place yields, by product type, for these acquisitions (in thousands, except percentage data):

Edgar Filing: DUKE REALTY CORP - Form 10-Q

Type	Year-to-Date 2014 Acquisitions			Full Year 2013 Acquisitions				
	Acquisition Price*	In-Place Yield**	Percent Leased at Acquisition Date***	Acquisition Price*	In-Place Yield**	Percent Leased at Acquisition Date***		
Industrial	\$17,550	6.3	% 100.0	% \$532,808	6.1	% 100.0	%	
Medical Office	—	—	% —	% 20,500	6.9	% 82.3	%	
Total	\$17,550	6.3	% 100.0	% \$553,308	6.2	% 99.8	%	

* Includes real estate assets and net acquired lease-related intangible assets, including above or below market leases, but excludes other acquired working capital assets and liabilities.

** In-place yields of completed acquisitions are calculated as the current annualized net rental payments from space leased to tenants at the date of acquisition, divided by the acquisition price of the acquired real estate. Annualized net rental payments are comprised of base rental payments, excluding additional amounts payable by tenants as reimbursement for operating expenses, less current annualized operating expenses not recovered through tenant reimbursements.

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

Disposition Activity

We regularly work to identify, consider and pursue opportunities to dispose of properties on an opportunistic basis and on a basis that is generally consistent with our strategic plans.

We sold 11 buildings during the three months ended March 31, 2014 and 38 buildings during the year ended December 31, 2013. The following table summarizes the sales prices, in-place yields and percent leased, by product type, of these buildings (in thousands, except percentage data):

Type	Year-to-Date 2014 Dispositions			Full Year 2013 Dispositions				
	Sales Price	In-Place Yield*	Percent Leased**	Sales Price	In-Place Yield*	Percent Leased**		
Industrial	\$18,350	10.4	% 94.9	% \$16,499	6.3	% 50.1	%	
Office	—	—	% —	% 219,254	8.3	% 91.6	%	
Medical Office	57,400	6.5	% 100.0	% 285,850	6.4	% 89.1	%	
Other	—	—	% —	% 188,000	5.0	% 89.8	%	
Total	\$75,750	7.4	% 96.4	% \$709,603	6.6	% 86.5	%	

* In-place yields of completed dispositions are calculated as current annualized net rental payments from space leased to tenants at the date of sale, divided by the sales price of the real estate. Annualized net rental payments are comprised of base rental payments, excluding additional amounts payable by tenants as reimbursement for operating expenses, less current annualized operating expenses not recovered through tenant reimbursements.

** Represents percentage of total square feet leased based on executed leases where the leases have commenced.

The industrial disposition activity during the three months ended March 31, 2014 consisted of a nine-building light industrial, also known as flex industrial, portfolio totaling approximately 439,000 square feet. These properties have a substantial portion of their leases expiring within the next two years.

Development

At March 31, 2014, we had 7.5 million square feet of property under development with total estimated costs upon completion of \$645.5 million compared to 5.1 million square feet with total estimated costs upon completion of \$675.7 million at March 31, 2013. The square footage and estimated costs include both consolidated and joint venture development activity at 100%.

The following table summarizes our properties under development at March 31, 2014 (in thousands, except percentage data):

Ownership Type	Square Feet	Percent Leased	Total Estimated Project Costs	Total Incurred to Date	Amount Remaining to be Spent
Consolidated properties	5,763	81%	\$568,974	\$264,588	\$304,386
Joint venture properties	1,758	100%	76,547	23,313	53,234
Total	7,521	86%	\$645,521	\$287,901	\$357,620

Supplemental Performance Measures

In addition to net income (loss) computed in accordance with GAAP, we assess and measure the overall operating results of the General Partner and the Partnership using certain supplemental performance measures, including Funds From Operations ("FFO"), Property Level Net Operating Income - Cash Basis ("PNOI") and Same Property Net Operating Income - Cash Basis ("SPNOI"). These non-GAAP metrics are commonly used by industry analysts and investors as supplemental operating performance measures of REITs and are viewed by management to be useful indicators of operating performance. Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry analysts and investors have considered presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Management believes that the use of FFO, PNOI and SPNOI, combined with net income (which remains the primary measure of performance), improves the understanding of operating results of REITs among the investing public and makes comparisons of REIT operating results more meaningful.

The most comparable GAAP measure to FFO is net income (loss) attributable to common shareholders or common unitholders, while the most comparable GAAP measure to PNOI and SPNOI is income from continuing operations before income taxes. FFO, PNOI and SPNOI each exclude expenses that materially impact our overall results of operations and, therefore, should not be considered as a substitute for net income (loss) attributable to common shareholders or common unitholders or any other measures derived in accordance with GAAP. Furthermore, these metrics may not be comparable to other similarly titled measures of other companies.

Funds From Operations

The National Association of Real Estate Investment Trusts ("NAREIT") created FFO as a non-GAAP supplemental measure of REIT operating performance. FFO, as defined by NAREIT, represents GAAP net income (loss), excluding extraordinary items as defined under GAAP, gains or losses from sales of previously depreciated real estate assets, impairment charges related to depreciable real estate assets, plus certain non-cash items such as real estate asset depreciation and amortization, and after similar adjustments for unconsolidated partnerships and joint ventures. FFO is calculated in accordance with the definition that was adopted by the Board of Governors of NAREIT.

Management believes that the use of FFO as a performance measure enables investors and analysts to readily identify the operating results of the long-term assets that form the core of a REIT's activity and assists them in comparing these operating results between periods or between different companies.

The following table shows a reconciliation of net income attributable to common shareholders or common unitholders to the calculation of FFO attributable to common shareholders or common unitholders for the three months ended March 31, 2014 and 2013, respectively (in thousands):

Edgar Filing: DUKE REALTY CORP - Form 10-Q

	Three Months Ended March 31,	
	2014	2013
Net income attributable to common shareholders of the General Partner	\$18,683	\$28,043
Add back: Net income attributable to noncontrolling interests - common limited partnership interests in the Partnership	250	392
Net income attributable to common unitholders of the Partnership	18,933	28,435
Adjustments:		
Depreciation and amortization	98,264	99,780
Company share of joint venture depreciation and amortization	6,396	7,629
Gains on depreciable property sales, net of income taxes—wholly owned	(29,954)	(9,122)
Gains/losses on depreciable property sales—share of joint venture	165	(48,814)
Funds From Operations attributable to common unitholders of the Partnership	\$93,804	\$77,908
Additional General Partner Adjustments:		
Net income attributable to noncontrolling interests - common limited partnership interests in the Partnership	(250)	(392)
Noncontrolling interest share of adjustments	(991)	(682)
Funds From Operations attributable to common shareholders of the General Partner	\$92,563	\$76,834

Income tax expense, from both continuing and discontinued operations, for the three months ended March 31, 2014, was the result of the sales of properties that were partially owned by our taxable REIT subsidiary. As such, the income tax expense for the period is excluded from FFO.

Property Level Net Operating Income - Cash Basis

PNOI is comprised of rental revenues from continuing operations less rental expenses and real estate taxes from continuing operations, with certain adjustments. As a performance metric that consists of only the cash-based revenues and expenses directly related to ongoing real estate rental operations, PNOI is more narrow in scope than FFO. The adjustments to arrive at PNOI include the removal of straight-line rental income and expense, lease buyout revenues, operations related to properties that have been sold but not classified as discontinued operations as well as the amortization of lease concessions and above and below market rents. PNOI, as we calculate it, may not be directly comparable to similarly titled but differently calculated measures for other REITs. We believe that PNOI is another useful supplemental performance measure, as it is an input in many REIT valuation models and it provides a means by which to evaluate the performance of the properties within our Rental Operations segments. The major factors influencing PNOI are occupancy levels, acquisitions and sales, development properties that achieve stabilized operations, rental rate increases or decreases, and the recoverability of operating expenses. PNOI was calculated as follows for the three-month periods ended March 31, 2014 and 2013 (in thousands):

	2014	2013
Rental and related revenue from continuing operations - Rental Operations segments	\$236,371	\$208,682
Rental and real estate tax expenses from continuing operations - Rental Operations segments	(81,063)	(67,015)
Less adjusting items, continuing operations:		
PNOI from sold properties included in continuing operations	96	(2,767)
Straight-line rental income and expense, net	(6,463)	(4,270)
Revenues related to lease buyouts	(2,695)	(1,993)
Amortization of lease concessions and above and below market rents	2,467	1,897
Intercompany rents and other adjusting items	1,142	1,034
PNOI, Continuing Operations	\$149,855	\$135,568

A reconciliation of PNOI for our Rental Operations segments to income (loss) from continuing operations before income taxes is provided in Note 10 to the consolidated financial statements included in Part I, Item 1 of this Report. PNOI from continuing operations increased largely as the result of acquisitions and developments placed in

service, as is described further in the Comparison of Three Months Ended March 31, 2014 to Three Months Ended March 31, 2013.

Same Property Net Operating Income - Cash Basis

We also evaluate the performance of our properties, including our share of properties we jointly control, on a "same property" basis, using a metric referred to as SPNOI. We view SPNOI as a useful supplemental performance measure because it improves comparability between periods by eliminating the effects of changes in the composition of our portfolio. On an individual property basis, with the exception that SPNOI includes revenues from lease buyouts that are individually less than \$250,000, SPNOI is computed in a consistent manner as PNOI.

We have defined our same property portfolio, for the three months ended March 31, 2014, as those properties that have been owned and in operation throughout the twenty-four months ended March 31, 2014. In addition to excluding properties that have not been owned and in operation for the twenty-four months ended March 31, 2014, we have also excluded properties from our same property portfolio where revenues from individual lease buyouts in excess of \$250,000 have been recognized. A reconciliation of SPNOI to PNOI and net income from continuing operations before income taxes is presented as follows (in thousands):

	Three Months Ended March 31,		Percent Change
	2014	2013	
SPNOI	\$121,925	\$119,245	2.2%
Less share of SPNOI from unconsolidated joint ventures	(10,801)	(9,959)	
Less lease buyouts (same property) individually less than \$250	(434)	(436)	
PNOI excluded from the same property population	39,165	26,718	
PNOI	\$149,855	\$135,568	
Earnings from Service Operations	8,549	9,063	
Rental Operations revenues and expenses excluded from PNOI	5,453	6,099	
Non-Segment Items	(152,255)	(114,932)	
Income from continuing operations before income taxes	\$11,602	\$35,798	

The composition of the line items titled "Rental Operations revenues and expenses excluded from PNOI" and "Non-Segment Items" from the table above are shown in greater detail in Note 10 to the consolidated financial statements included in Part I, Item 1 of this Report.

We believe that the factors that impact SPNOI are generally the same as those that impact PNOI. The following table details the number of properties, square feet, average occupancy and cash rental rates for the properties included in SPNOI for the respective periods:

	Three Months Ended March 31,	
	2014	2013
Number of properties	631	631
Square feet (in thousands) (1)	106,415	106,415
Average commencement occupancy percentage (2)	92.6%	91.8%
Average rental rate - cash basis (3)	\$5.53	\$5.47

(1) Includes the total square feet of the consolidated properties that are in the same property population as well as 6.9 million square feet of space for unconsolidated joint ventures, which represents our ratable share of the 21.0 million total square feet of space for buildings owned by unconsolidated joint ventures that are in the same property population.

(2) Commencement occupancy represents the percentage of total square feet where the leases have commenced.

(3) Represents the average annualized contractual rent per square foot for the three-month periods ended March 31, 2014 and 2013 for tenants in occupancy in properties in the same property population. Cash rent does not include the tenant's obligation to pay property operating expenses and real estate taxes. If a tenant was within a free rent period at March 31, 2014 or 2013 its rent would equal zero for purposes of this metric.

Results of Operations

A summary of our operating results and property statistics for the three months ended March 31, 2014 and 2013, respectively, is as follows (in thousands, except number of properties and per share or Common Unit data):

	Three Months Ended March 31,	
	2014	2013
Rental and related revenue from continuing operations	\$237,350	\$209,879
General contractor and service fee revenue	55,820	47,404
Operating income	66,522	92,183
General Partner		
Net income attributable to common shareholders	\$18,683	\$28,043
Weighted average common shares outstanding	327,106	314,936
Weighted average common shares and potential dilutive securities	331,716	319,571
Partnership		
Net income attributable to common unitholders	\$18,933	\$28,435
Weighted average Common Units outstanding	331,493	319,341
Weighted average Common Units and potential dilutive securities	331,716	319,571
General Partner and Partnership		
Basic income per common share or Common Unit:		
Continuing operations	\$0.01	\$0.06
Discontinued operations	\$0.05	\$0.03
Diluted income per common share or Common Unit:		
Continuing operations	\$0.01	\$0.06
Discontinued operations	\$0.05	\$0.03
Number of in-service consolidated properties at end of period	616	627
In-service consolidated square footage at end of period	124,146	116,183
Number of in-service joint venture properties at end of period	106	107
In-service joint venture square footage at end of period	22,413	21,624

Comparison of Three Months Ended March 31, 2014 to Three Months Ended March 31, 2013

Rental and Related Revenue

The following table sets forth rental and related revenue from continuing operations by reportable segment for the three months ended March 31, 2014 and 2013, respectively (in thousands):

	Three Months Ended March 31,	
	2014	2013
Rental and related revenue:		
Industrial	\$134,002	\$114,700
Office	66,972	61,197
Medical Office	33,310	30,484
Other	3,066	3,498
Total rental and related revenue from continuing operations	\$237,350	\$209,879

The following factors contributed to the increase in rental and related revenue from continuing operations:

We acquired 18 properties, of which 17 were industrial and one was medical office, and placed 20 developments in service from January 1, 2013 to March 31, 2014, which provided incremental revenues of \$20.8 million in the three months ended March 31, 2014, as compared to the same period in 2013.

We sold 13 medical office properties in the fourth quarter of 2013 and the first quarter of 2014, but because of our continuing involvement in these properties through retained management agreements, these properties are classified in continuing operations. The sale of these properties resulted in a \$4.2 million decrease in rental and related revenue from continuing operations in the three months ended March 31, 2014, as compared to the same period in 2013. The remaining increase in rental and related revenue from continuing operations was primarily due to a \$7.6 million increase in rental expense recoveries within properties outside of the acquisitions, developments and dispositions described above, most of which was attributable to a significant increase in recoverable snow removal and utility costs resulting from the extreme winter conditions in the first quarter of 2014. Increased occupancy and rental rates within our existing base of properties also contributed, to a lesser extent, to the remaining increase in rental and related revenue from continuing operations.

Rental Expenses and Real Estate Taxes

The following table sets forth rental expenses and real estate taxes from continuing operations by reportable segment for the three months ended March 31, 2014 and 2013, respectively (in thousands):

	Three Months Ended March 31,	
	2014	2013
Rental expenses:		
Industrial	\$18,484	\$13,214
Office	21,013	17,836
Medical Office	8,978	6,813
Other	1,792	998
Total rental expenses from continuing operations	\$50,267	\$38,861
Real estate taxes:		
Industrial	\$19,735	\$17,487
Office	8,069	7,863
Medical Office	3,938	3,111
Other	725	579
Total real estate tax expense from continuing operations	\$32,467	\$29,040

Overall, rental expenses from continuing operations increased by \$11.4 million in the three months ended March 31, 2014, compared to the same period in 2013. The increase was primarily the result of an increase in snow removal and utility costs due to the extreme winter conditions experienced in the first quarter of 2014. Also contributing to the overall increase, to a lesser extent, were incremental rental expenses associated with the 18 properties acquired and the 20 developments placed in service since January 1, 2013, as well as higher occupancy in our same property portfolio. Overall, real estate taxes from continuing operations increased by \$3.4 million in the three months ended March 31, 2014, compared to the same period in 2013. This increase was primarily due to the 18 properties acquired and the 20 developments placed in service since January 1, 2013, which resulted in incremental real estate tax expense of \$2.6 million.

Service Operations

The following table sets forth the components of the Service Operations reportable segment for the three months ended March 31, 2014 and 2013, respectively (in thousands):

	Three Months Ended March 31,	
	2014	2013
Service Operations:		
General contractor and service fee revenue	\$55,820	\$47,404
General contractor and other services expenses	(47,271	) (38,341
Net earnings from Service Operations	\$8,549	\$9,063

Service Operations primarily consist of the leasing, property management, asset management, development, construction management and general contractor services for joint venture properties and properties owned by third parties. Service Operations are heavily influenced by the current state of the economy, as leasing and property management fees are dependent upon occupancy, while construction and development services rely on the expansion of business operations of third-party property owners and joint venture partners.

General contractor and service fee revenues increased due to higher third-party construction volume, which was driven in part by two third-party construction projects in the Chicago area that were ongoing during the three months ended March 31, 2014. Net earnings from Service Operations, for ongoing projects, was higher in the first three months of 2014 when compared to the first three months of 2013. We, however, had a \$4.2 million recovery from a sub-contractor on a previously completed third-party construction job during the first three months of 2013, which drove the slight overall decrease in net earnings from Service Operations.

Depreciation and Amortization

Depreciation and amortization expense increased from \$93.0 million during the first three months of 2013 to \$98.1 million for the same period in 2014, primarily due to depreciation related to additions to our continuing operations asset base from properties acquired, which have shorter depreciable lives relative to developed properties, and developments placed in service in 2013 and the first three months of 2014.

Equity in Earnings

Equity in earnings represents our ownership share of net income or loss from investments in unconsolidated companies that generally own and operate rental properties. Equity in earnings decreased from \$49.4 million in the first three months of 2013 to \$2.3 million for the same period in 2014. The decrease was largely due to the sale of properties by two of our unconsolidated joint ventures in 2013. In January 2013, one of our unconsolidated joint ventures sold its only property, and we recorded \$12.2 million to equity in earnings for our share of the net gain. In March 2013, we sold our interest in 17 properties within another of our unconsolidated joint ventures to our partner in that venture, resulting in \$36.6 million recorded to equity in earnings for our share of the net gain on sale in the first quarter of 2013.

Gain on Sale of Properties - Continuing Operations

The \$15.9 million recognized as gain on sale of properties in continuing operations for the three months ended March 31, 2014 is primarily comprised of the gain from the sale of one medical office property. This property did not meet the criteria for inclusion in discontinued operations because of our continued involvement through a retained management agreement after the sale.

General and Administrative Expense

General and administrative expenses consist of two components. The first component includes general corporate expenses, and the second component includes the indirect operating costs not allocated to, or absorbed by, the development or Rental Operations of our wholly-owned properties or our Service Operations. The indirect operating costs that are either allocated to, or absorbed by, the development or Rental Operations of our wholly owned properties, or our Service Operations, are primarily comprised of employee compensation, including related costs such as benefits and wage-related taxes, but also include other ancillary costs such as travel and information

technology support. Total indirect operation costs, prior to any allocation or absorption, and general corporate expenses are collectively referred to as our overall pool of overhead costs.

Those indirect costs not allocated to or absorbed by these operations are charged to general and administrative expenses. We regularly review our total overhead cost structure relative to our leasing, development and construction volume and adjust the level of total overhead, generally through changes in our level of staffing in various functional departments, as necessary in order to control overall general and administrative expense.

General and administrative expenses increased from \$13.1 million for the first three months of 2013 to \$14.7 million for the same period in 2014. The following table sets forth the factors that led to the increase in general and administrative expenses from the three months ended March 31, 2013 to the three months ended March 31, 2014 (in millions):

General and administrative expenses - three-month period ended March 31, 2013	\$ 13.1
Increase to overall pool of overhead costs	0.3
Decreased absorption of costs by wholly owned leasing and development activities (1)	0.8
Reduced allocation of costs to Service Operations and Rental Operations	0.5
General and administrative expenses - three-month period ended March 31, 2014	\$ 14.7

(1) We capitalized \$8.3 million and \$6.4 million of our total overhead costs to leasing and development, respectively, for consolidated properties during the three months ended March 31, 2014, compared to capitalizing \$9.1 million and \$6.4 million of such costs, respectively, for the three months ended March 31, 2013. Combined overhead costs capitalized to leasing and development totaled 33.2% and 35.3% of our overall pool of overhead costs for 2014 and 2013, respectively.

Interest Expense

Interest expense allocable to continuing operations decreased from \$57.2 million in the first three months of 2013 to \$55.3 million in the first three months of 2014. The reduction in interest expense is primarily the result of our refinancing \$675.0 million of unsecured debt during 2013, which had a weighted average effective interest rate of 6.4%, with new lower-rate fixed and variable rate issuances.

We capitalized \$4.2 million of interest costs during the three months ended March 31, 2014 compared to \$4.7 million during the three months ended March 31, 2013.

Discontinued Operations

Subject to certain criteria, the results of operations for properties sold during the year to unrelated parties, or classified as held-for-sale at the end of the period, are required to be classified as discontinued operations. The property-specific components of earnings that are classified as discontinued operations include rental revenues, rental expenses, real estate taxes, allocated interest expense and depreciation expense, as well as the net gain or loss on the disposition of the properties.

The operations of 38 buildings were classified as discontinued operations for both the three months ended March 31, 2014 and March 31, 2013. These 38 buildings consist of 17 industrial, 12 office, eight medical office and one retail property. As a result, we classified operating loss, before gain on sales, of \$132,000 and \$629,000 in discontinued operations for the three months ended March 31, 2014 and 2013, respectively.

Of the properties included in discontinued operations, 10 were sold during the first three months of 2014 and six were sold during the first three months of 2013. The gains on disposal, net of tax, of \$16.8 million and \$9.0 million for the three months ended March 31, 2014 and 2013, respectively, are reported in discontinued operations.

Liquidity and Capital Resources

Sources of Liquidity

We expect to meet our short-term liquidity requirements over the next 12 months primarily through working capital, net cash provided by operating activities and proceeds received from real estate dispositions. Our short-term

liquidity requirements include payments of dividends and distributions as well as the capital expenditures needed to maintain our current real estate assets. We had \$19.5 million in cash and \$180.0 million of outstanding borrowings on the Partnership's \$850.0 million unsecured line of credit at March 31, 2014.

In addition to our existing sources of liquidity, we expect to meet long-term liquidity requirements, such as scheduled mortgage and unsecured debt maturities, property acquisitions, financing of development activities and other capital improvements, through multiple sources of capital including operating cash flow, proceeds from property dispositions, term loans and through accessing the public debt and equity markets.

Rental Operations

Cash flows from Rental Operations is our primary source of liquidity and provides a stable source of cash flow to fund operational expenses. We believe that this cash-based revenue stream is substantially aligned with revenue recognition (except for items such as periodic straight-line rental income accruals and amortization of above or below market rents) as cash receipts from the leasing of rental properties are generally received in advance of, or a short time following, the actual revenue recognition.

Although overall economic conditions have improved since the last economic recession, we are subject to a number of risks related to general economic conditions, including reduced occupancy, tenant defaults and bankruptcies and potential reduction in rental rates upon renewal or re-letting of properties, any of which would result in reduced cash flow from operations.

Unsecured Debt and Equity Securities

We use the Partnership's unsecured line of credit as a temporary source of capital to fund development activities, acquire additional rental properties and provide working capital.

At March 31, 2014, we had on file with the SEC an automatic shelf registration statement on Form S-3 relating to the offer and sale, from time to time, of an indeterminate amount of debt and equity securities (including guarantees of the Partnership's debt securities by the General Partner). Equity securities are offered and sold by the General Partner, and the net proceeds of such offerings are contributed to the Partnership in exchange for additional General Partner Units or Preferred Units. From time to time, we expect to issue additional securities under this automatic shelf registration statement to fund the repayment of long-term debt upon maturity and for other general corporate purposes.

The General Partner currently has an at the market equity program that allows it to issue new common shares from time to time, with an aggregate offering price of up to \$300.0 million. The General Partner entered into this at the market equity program on May 21, 2013, after fully utilizing its previous at the market equity program that it initiated in 2012. During the three months ended March 31, 2014, the General Partner issued approximately 1.4 million common shares under this program, resulting in gross proceeds of approximately \$24.1 million and generated net proceeds of approximately \$23.8 million from the offerings. The General Partner has a capacity of \$224.5 million remaining under its current at the market equity program.

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, as well as applicable covenants under our unsecured line of credit, at March 31, 2014.

Sale of Real Estate Assets

We regularly work to identify, consider and pursue opportunities to dispose of non-strategic properties on an opportunistic basis and on a basis that is generally consistent with our strategic plans. Our ability to dispose of such properties on favorable terms, or at all, is dependent upon a number of factors including the availability of credit to potential buyers to purchase properties at prices that we consider acceptable. Although we believe that we have demonstrated our ability to generate significant liquidity through the disposition of non-strategic properties, potential future adverse changes to general market and economic conditions could negatively impact our further ability to dispose of such properties.

Transactions with Unconsolidated Joint Ventures

Transactions with unconsolidated joint ventures also provide a source of liquidity. From time to time we will sell properties to unconsolidated joint ventures, while retaining a continuing interest in that entity, and receive proceeds commensurate to those interests that we do not own. Additionally, unconsolidated joint ventures will from time to time obtain debt financing or sell properties and will then distribute to us, and our joint venture partners, all or a portion of the proceeds from such transactions. During the three months ended March 31, 2014, we received a sale distribution from an unconsolidated joint venture for \$2.5 million.

Uses of Liquidity

Our principal uses of liquidity include the following:

- property investment;
- leasing/capital costs;
- dividends and distributions to shareholders and unitholders;
- long-term debt maturities;
- opportunistic repurchases of outstanding debt and preferred stock; and
- other contractual obligations.

Property Investment

It is our strategy, through new developments and, to a lesser extent, acquisitions to continue to increase our investment concentration in industrial properties while, through selective dispositions, reducing our investment concentration in suburban office properties in certain markets. Pursuant to this strategy, we evaluate development and acquisition opportunities based upon our market outlook, including general economic conditions, supply and long-term growth potential. Our ability to make future property investments, along with being dependent upon identifying suitable development and acquisition opportunities, is also dependent upon our continued access to our longer-term sources of liquidity, including issuances of debt or equity securities as well as generating cash flow by disposing of selected properties.

Leasing/Capital Costs

Tenant improvements and lease-related costs pertaining to our initial leasing of newly completed space, or vacant space in acquired properties, are referred to as first generation expenditures. Such first generation expenditures for tenant improvements are included within "development of real estate investments" in our Consolidated Statements of Cash Flows, while such expenditures for lease-related costs are included within "other deferred leasing costs." Cash expenditures related to the construction of a building's shell, as well as the associated site improvements, are also included within "development of real estate investments" in our Consolidated Statements of Cash Flows. Tenant improvements and leasing costs to re-let rental space that we previously leased to tenants are referred to as second generation expenditures. Building improvements that are not specific to any tenant but serve to improve integral components of our real estate properties are also second generation expenditures. One of the principal uses of our liquidity is to fund the second generation leasing/capital expenditures of our real estate investments. The following table summarizes our second generation capital expenditures by type of expenditure, as well as capital expenditures for the development of real estate investments and for other deferred leasing costs (in thousands):

	Three Months Ended March 31,	
	2014	2013
Second generation tenant improvements	\$10,445	\$9,578
Second generation leasing costs	8,942	7,060
Building improvements	244	481
Total second generation capital expenditures	\$19,631	\$17,119
Development of real estate investments	\$105,413	\$103,684
Other deferred leasing costs	\$8,706	\$11,079

We capitalized \$8.3 million and \$9.1 million of overhead costs related to leasing activities, including both first and second generation leases, during the three months ended March 31, 2014 and 2013, respectively. We capitalized \$6.4 million of overhead costs related to development activities, including both development and tenant improvement projects on first and second generation space, during each of the three-month periods ended March 31, 2014 and 2013. Combined overhead costs capitalized to leasing and development totaled 33.2% and 35.3% of our overall pool of overhead costs for the three months ended March 31, 2014 and 2013, respectively. Further discussion of the capitalization of overhead costs can be found herein, in the discussion of general and administrative expenses in the Comparison of Three Months Ended March 31, 2014 to Three Months Ended March 31, 2013 section of Management's Discussion and Analysis of Financial Condition and Results of Operations as well as in the Critical Accounting Policies section of Management's Discussion and Analysis of Financial Condition and Results of Operations in our combined Annual Report on Form 10-K for the year ended December 31, 2013 as filed with the SEC on February 21, 2014.

In addition to the capitalization of overhead costs discussed above, we also capitalized \$4.2 million and \$4.7 million of interest costs in the three months ended March 31, 2014 and 2013, respectively.

The following table summarizes our second generation capital expenditures by reportable operating segment (in thousands):

	Three Months Ended March 31,	
	2014	2013
Industrial	\$9,855	\$5,953
Office	9,070	10,874
Medical Office	213	292
Non-reportable segments	493	—
Total	\$19,631	\$17,119

Both our first and second generation expenditures vary significantly between leases on a per square foot basis, dependent upon several factors including the product type, the nature of a tenant's operations, the specific physical characteristics of each individual property and the market in which the property is located.

Dividend and Distribution Requirements

The General Partner is required to meet the distribution requirements of the Internal Revenue Code of 1986, as amended (the "Code"), in order to maintain its REIT status. We paid dividends or distributions of \$0.17 per common share or Common Unit in the first quarter of 2014, and the General Partner's board of directors declared dividends or distributions of \$0.17 per common share or Common Unit for the second quarter of 2014. Our future dividends or distributions will be declared at the discretion of the General Partner's board of directors and will be subject to our future capital needs and availability.

At March 31, 2014, the General Partner had three series of preferred stock outstanding. The annual dividend rates on the General Partner's preferred shares range between 6.5% and 6.625% and are paid quarterly in arrears.

Debt Maturities

Debt outstanding at March 31, 2014 had a face value totaling \$4.3 billion with a weighted average interest rate of 5.41% and matures at various dates through 2028. Of this total amount, we had \$3.1 billion of unsecured debt, \$1.1 billion of secured debt and \$180.0 million outstanding on our unsecured line of credit at March 31, 2014. Scheduled principal amortization and maturities of such debt totaled \$22.0 million for the three months ended March 31, 2014. The following table is a summary of the scheduled future amortization and maturities of our indebtedness at March 31, 2014 (in thousands, except percentage data):

Year	Future Repayments			Weighted Average Interest Rate of Future Repayments	
	Scheduled Amortization	Maturities	Total		
Remainder of 2014	\$12,671	\$49,406	\$62,077	6.23	%
2015	14,658	623,346	638,004	5.07	%
2016	12,307	518,132	530,439	6.14	%
2017	10,139	558,129	568,268	5.89	%
2018	7,937	550,000	557,937	4.03	%
2019	6,936	518,438	525,374	7.97	%
2020	5,381	250,000	255,381	6.73	%
2021	3,416	259,047	262,463	3.99	%
2022	3,611	600,000	603,611	4.20	%
2023	3,817	250,000	253,817	3.75	%
2024	4,036	—	4,036	5.62	%
Thereafter	6,325	50,000	56,325	7.11	%
	\$91,234	\$4,226,498	\$4,317,732	5.41	%

We anticipate generating capital to fund our debt maturities by using undistributed cash generated from our Rental Operations and property dispositions and by raising additional capital from future debt or equity transactions.

Repurchases of Outstanding Debt and Preferred Stock

To the extent that it supports our overall capital strategy, we may purchase certain of our outstanding unsecured debt prior to its stated maturity or the General Partner may redeem or repurchase certain of its outstanding series of preferred stock.

In the first three months of 2014, pursuant to a share repurchase plan approved by our board of directors, the General Partner repurchased 750,243 preferred shares from among our three outstanding series. The preferred shares repurchased had a total redemption value of approximately \$18.8 million and were repurchased for \$17.7 million.

Historical Cash Flows

Cash and cash equivalents were \$19.5 million and \$307.2 million at March 31, 2014 and 2013, respectively. The following table highlights significant changes in net cash associated with our operating, investing and financing activities (in millions):

	Three Months Ended March 31,	
	2014	2013
General Partner		
Net Cash Provided by Operating Activities	\$59.1	\$73.4
Net Cash Used for Investing Activities	\$(74.9)	\$(31.3)
Net Cash Provided by Financing Activities	\$16.0	\$231.2
Partnership		
Net Cash Provided by Operating Activities	\$59.1	\$73.5
Net Cash Used for Investing Activities	\$(74.9)	\$(31.3)
Net Cash Provided by Financing Activities	\$16.0	\$231.1

Operating Activities

The receipt of rental income from Rental Operations continues to be our primary source of operating cash flows. The decrease in cash flows from operations noted in the table above was primarily due to working capital changes driven by the timing of rental-related cash receipts as well as due to the timing of cash payments and receipts on third-party construction contracts.

Investing Activities

Investing activities are one of the primary uses of our liquidity. Development and acquisition activities typically generate additional rental revenues and provide cash flows for operational requirements. Highlights of significant cash sources and uses are as follows:

During the three months ended March 31, 2014, we paid cash of \$17.2 million for real estate acquisitions and \$2.3 million for undeveloped land acquisitions, compared to \$35.5 million and \$5.1 million, respectively, for real estate and undeveloped land acquisitions in the same period in 2013.

Real estate development costs were \$105.4 million during the three months ended March 31, 2014, compared to \$103.7 million for the same period in 2013.

Sales of land and depreciated property provided \$70.7 million in net proceeds for the three months ended March 31, 2014, compared to \$61.9 million for the same period in 2013.

For the three months ended March 31, 2014, we received \$2.5 million in capital distributions, compared to \$89.2 million during the same period in 2013. The activity during the three months ended March 31, 2013 represented the receipt of our share of the net proceeds from the sales of 17 office properties and one industrial property within two of our unconsolidated joint ventures.

Financing Activities

The following items highlight some of the factors that account for the difference in net cash flow related to financing activities in the first three months of 2014, compared to the same period in 2013:

During the three months ended March 31, 2014, the General Partner issued 1.4 million common shares for net proceeds of \$23.8 million, compared to 41.6 million common shares for net proceeds of \$574.7 million during the three months ended March 31, 2013.

For the three months ended March 31, 2014, the General Partner opportunistically repurchased preferred shares from all outstanding series in the open market in order to take advantage of the significant discounts at which they were trading. In total, the General partner repurchased preferred shares having a redemption value of approximately \$18.8 million for \$17.7 million.

During the three months ended March 31, 2014 and 2013, respectively, we repaid one secured loan totaling \$18.1 million that had a stated interest rate of 5.14% and two secured loans totaling \$13.7 million that had a weighted average stated interest rate of 6.20%.

For the three months ended March 31, 2014, we increased net borrowings on the Partnership's unsecured line of credit by \$92.0 million, compared to a \$285.0 million decrease in net borrowings for the same period in 2013.

Changes in book overdrafts are classified as financing activities within our Consolidated Statements of Cash Flows. Book overdrafts were \$16.1 million at March 31, 2014, compared to no book overdrafts at March 31, 2013.

In March 2013, we issued \$250.0 million of senior unsecured notes that bear interest at 3.625%, have an effective interest rate of 3.72%, and mature on April 15, 2023, compared to no new note issuances in the three months ended March 31, 2014.

In February 2013, the General Partner redeemed all of the outstanding shares of its Series O Shares for a total payment of \$178.0 million.

Contractual Obligations

Aside from changes in long-term debt, there have not been material changes in our outstanding commitments since December 31, 2013, as previously discussed in our 2013 Annual Report on Form 10-K.

Off Balance Sheet Arrangements - Investments in Unconsolidated Companies

We analyze our investments in unconsolidated joint ventures to determine if they meet the criteria for classification as a variable interest entity (a "VIE") and would require consolidation. We (i) evaluate the sufficiency of the total equity at risk, (ii) review the voting rights and decision-making authority of the equity investment holders as a group and whether there are any 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 (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 of the VIE and would consolidate it. At the end of each reporting period, we re-assess our conclusions as to which, if any, party within the VIE is considered the primary beneficiary. To the extent that our joint ventures do not qualify as VIEs, we further assess each joint venture partner's substantive participating rights to determine if the venture should be consolidated.

We have equity interests in unconsolidated partnerships and limited liability companies that primarily own and operate rental properties and hold land for development. These unconsolidated joint ventures are primarily engaged in the operations and development of industrial, office and medical office real estate properties. These investments provide us with increased market share and tenant and property diversification. The equity method of accounting is used for these investments in which we have the ability to exercise significant influence, but not control, over operating and financial policies. As a result, the assets and liabilities of these entities are not included on our balance sheet. Our investments in and advances to unconsolidated subsidiaries represented approximately 4% of our total assets at both March 31, 2014 and December 31, 2013. Total assets of our unconsolidated subsidiaries were \$2.0 billion at both March 31, 2014 and December 31, 2013. The combined revenues of our unconsolidated subsidiaries totaled \$61.3 million and \$68.3 million for the three months ended March 31, 2014 and 2013, respectively.

We have guaranteed the repayment of certain secured and unsecured loans of our unconsolidated subsidiaries. The outstanding balances on the guaranteed portion of these loans totaled \$196.4 million at March 31, 2014.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to interest rate changes primarily as a result of our line of credit and our long-term borrowings. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve our objectives, we borrow primarily at fixed rates. We do not enter into derivative or interest rate transactions for speculative purposes. We have two outstanding swaps, which fix the rates on two of our variable rate loans and are not significant to our financial statements at March 31, 2014.

Our interest rate risk is monitored using a variety of techniques. The table below presents the principal amounts (in thousands) of the expected annual maturities, weighted average interest rates for the average debt outstanding in the

Edgar Filing: DUKE REALTY CORP - Form 10-Q

specified period, fair values (in thousands) and other terms required to evaluate the expected cash flows and sensitivity to interest rate changes.

	Remainder of 2014	2015	2016	2017	2018	Thereafter	Face Value	Fair Value
Fixed rate secured debt	\$59,239	\$205,036	\$377,314	\$102,016	\$4,952	\$304,450	\$1,053,007	\$1,135,596
Weighted average interest rate	6.34	% 5.30	% 5.91	% 5.96	% 6.49	% 7.45	% 6.27	%
Variable rate secured debt	\$1,257	\$742	\$755	\$13,729	\$300	\$2,200	\$18,983	\$18,983
Weighted average interest rate	1.01	% 2.10	% 2.13	% 3.41	% 0.14	% 0.14	% 2.72	%
Fixed rate unsecured debt	\$1,581	\$252,226	\$152,370	\$452,523	\$302,685	\$1,654,357	\$2,815,742	\$3,037,472
Weighted average interest rate	6.26	% 7.49	% 6.71	% 5.95	% 6.08	% 5.20	% 5.70	%
Variable rate unsecured notes	\$—	\$—	\$—	\$—	\$250,000	\$—	\$250,000	\$251,743
Rate at March 31, 2014	N/A	N/A	N/A	N/A	1.51%	N/A	1.51	%
Variable rate unsecured line of credit	\$—	\$180,000	\$—	\$—	\$—	\$—	\$180,000	\$180,851
Rate at March 31, 2014	N/A	1.41	% N/A	N/A	N/A	N/A	1.41	%

As the above table incorporates only those exposures that existed at March 31, 2014, it does not consider those exposures or positions that could arise after that date. As a result, the ultimate impact of interest rate fluctuations will depend on future exposures that arise, our hedging strategies at that time to the extent we are party to interest rate derivatives, and interest rates. Interest expense on our unsecured line of credit and our variable rate unsecured notes will be affected by fluctuations in the LIBOR indices as well as changes in our credit rating. The interest rate at such point in the future as we may renew, extend or replace our unsecured line of credit will be heavily dependent upon the state of the credit environment.

Item 4. Controls and Procedures

Control and Procedures (General Partner)

(a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. These disclosure

controls and procedures are further designed to ensure that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure.

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 pursuant to Exchange Act Rules 13a-15 and 15d-15. Based upon the foregoing, the Chief Executive Officer and the Chief Financial Officer concluded that, as of the end of the period covered by this Report, our disclosure controls and procedures were effective.

(b) Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the period covered by this Report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Controls and Procedures (Partnership)

(a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. These disclosure controls and procedures are further designed to ensure that such information is accumulated and communicated to management, including the General Partner's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision and with the participation of management, including the General Partner's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based upon the foregoing, the General Partner's Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Report, our disclosure controls and procedures were effective.

(b) Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the period covered by this Report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

From time to time, we are parties to a variety of legal proceedings and claims arising in the ordinary course of our businesses. While these matters generally are covered by insurance, there is no assurance that our insurance will cover any particular proceeding or claim. We are not subject to any material pending legal proceedings other than routine litigation arising in the ordinary course of business. We presently believe that all of these proceedings to which we were subject as of March 31, 2014, taken as a whole, will not have a material adverse effect on our liquidity, business, financial condition or results of operations.

Item 1A. Risk Factors

In addition to the information set forth in this Report, you also should carefully review and consider the information contained in our other reports and periodic filings that we make with the SEC, including, without limitation the information contained under the caption "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2013. The risks and uncertainties described in our 2013 Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us, or that we presently deem to be immaterial, also may materially adversely affect our business, financial condition and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Unregistered Sales of Equity Securities

None

(b) Use of Proceeds

None

(c) Issuer Purchases of Equity Securities

From time to time, we repurchase our securities under a repurchase program that initially was approved by the board of directors and publicly announced in October 2001 (the "Repurchase Program").

On January 29, 2014, the board of directors adopted a resolution that amended and restated the Repurchase Program and delegated authority to management to repurchase a maximum of \$100.0 million of common shares, \$500.0 million of debt securities and \$500.0 million of preferred shares, subject to the prior notification of the Chairman of

the Finance Committee of the board of directors of planned repurchases within these limits (the “January 2014 Resolutions”).

The following table shows the share repurchase activity for the three months in the quarter ended March 31, 2014:

Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares That May Yet be Repurchased Under the Plan
Repurchases of 6.5% Series K Cumulative Redeemable Preferred Shares:				
January 1-31, 2014	6,211	\$22.99	6,211	(1)
Repurchases of 6.6% Series L Cumulative Redeemable Preferred Shares:				
January 1-31, 2014	517,032	\$23.37	517,032	(1)
February 1-28, 2014	110,000	\$23.85	110,000	\$494,568,500
Total	627,032	\$23.45	627,032	
Repurchases of 6.625% Series J Cumulative Redeemable Preferred Shares:				
February 1-28, 2014	117,000	\$24.00	117,000	\$494,568,500

(1) Shares repurchased prior to January 29, 2014 were purchased pursuant to resolutions adopted by the board of directors on July 31, 2013, which amended and restated the Repurchase Program and delegated authority to management to repurchase a maximum of \$100.0 million of common shares, \$300.0 million of debt securities and \$300.0 million of preferred shares, subject to the Chairman of the Finance Committee of the board of directors being given prior notice of any repurchases of common stock in excess of \$25.0 million (the “July 2013 Resolutions”). The July 2013 Resolutions were superseded by the January 2014 Resolutions, and therefore, there are no shares remaining for repurchase under the July 2013 Resolutions.

Item 3. Defaults upon Senior Securities

During the period covered by this Report, we did not default under the terms of any of our material indebtedness, nor has there been any material arrearage of dividends or other material uncured delinquency with respect to any class of the General Partner's preferred shares.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

During the period covered by this Report, there was no information required to be disclosed by us in a Current Report on Form 8-K that was not so reported, nor were there any material changes to the procedures by which our security holders may recommend nominees to the General Partner's board of directors.

Item 6. Exhibits

(a) Exhibits

- 3.1(i) Fourth Amended and Restated Articles of Incorporation of the General Partner (filed as Exhibit 3.1 to the General Partner's Current Report on Form 8-K as filed with the SEC on July 30, 2009, and incorporated herein by this reference).
- 3.1(ii) Amendment to the Fourth Amended and Restated Articles of Incorporation of the General Partner (filed as Exhibit 3.1 to the General Partner's Current Report on Form 8-K as filed with the SEC on July 22, 2011, and incorporated herein by this reference).
- 3.1(iii) Second Amendment to the Fourth Amended and Restated Articles of Incorporation of the General Partner (filed as Exhibit 3.1 to the General Partner's Current Report on Form 8-K as filed with the SEC on March 9, 2012, and incorporated herein by this reference).
- 3.1(iv) Third Amendment to the Fourth Amended and Restated Articles of Incorporation of the General Partner (filed as Exhibit 3.1 to the combined Current Report on Form 8-K of the General Partner and the Partnership as filed with the SEC on February 26, 2013, and incorporated herein by this reference).
- 3.2 Fourth Amended and Restated Bylaws of the General Partner (filed as Exhibit 3.2 to the General Partner's Current Report on Form 8-K as filed with the SEC on July 30, 2009, and incorporated herein by this reference).
- 3.3 Certificate of Limited Partnership of the Partnership, dated September 17, 1993 (filed as Exhibit 3.1(i) to the Partnership's Annual Report on Form 10-K for the year ended December 31, 2006 as filed with the SEC on March 13, 2007, and incorporated herein by this reference) (File No. 000-20625).
- 3.4(i) Fourth Amended and Restated Agreement of Limited Partnership of the Partnership (filed as Exhibit 3.1 to the Partnership's Current Report on Form 8-K as filed with the SEC on November 3, 2009, and incorporated herein by this reference).
- 3.4(ii) First Amendment to Fourth Amended and Restated Agreement of Limited Partnership of the Partnership (filed as Exhibit 3.1 to the Partnership's Current Report on Form 8-K as filed with the SEC on July 22, 2011, and incorporated herein by this reference).
- 3.4(iii) Second Amendment to Fourth Amended and Restated Agreement of Limited Partnership of the Partnership (filed as Exhibit 3.1 to the Partnership's Current Report on Form 8-K as filed with the SEC on March 9, 2012 and incorporated herein by this reference).
- 3.4(iv) Third Amendment to Fourth Amended and Restated Agreement of Limited Partnership of the Partnership (filed as Exhibit 3.2 to the combined Current Report on Form 8-K of the General Partner and the Partnership as filed with the SEC on February 26, 2013, and incorporated herein by this reference).
- 10.1 Form of Award Certificate under the General Partner's 2010 Performance Share Plan, a sub-plan of the 2005 Long-Term Incentive Plan. #*
- 11.1 Statement Regarding Computation of Earnings.***
- 12.1 Statement of Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Combined Fixed Charges and Preferred Dividends of the General Partner.*

- 12.2 Statement of Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Combined Fixed Charges and Preferred Distributions of the Partnership.*
- 31.1 Rule 13a-14(a) Certification of the Chief Executive Officer of the General Partner.*
- 31.2 Rule 13a-14(a) Certification of the Chief Financial Officer of the General Partner.*

45

- 31.3 Rule 13a-14(a) Certification of the Chief Executive Officer for the Partnership.*
- 31.4 Rule 13a-14(a) Certification of the Chief Financial Officer for the Partnership.*
- 32.1 Section 1350 Certification of the Chief Executive Officer of the General Partner.**
- 32.2 Section 1350 Certification of the Chief Financial Officer of the General Partner.**
- 32.3 Section 1350 Certification of the Chief Executive Officer for the Partnership.**
- 32.4 Section 1350 Certification of the Chief Financial Officer for the Partnership.**

101 The following materials from the General Partner's and the Partnership's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations and Comprehensive Income, (iii) the Consolidated Statements of Cash Flows, (iv) the Consolidated Statements of Changes in Equity, and (v) the Notes to Consolidated Financial Statements.

Represents management contract or compensatory plan or arrangement.

* Filed herewith.

** The certifications attached as Exhibits 32.1, 32.2, 32.3 and 32.4 accompany this Quarterly Report on Form 10-Q and are "furnished" to the Securities and Exchange Commission pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed "filed" by the General Partner or the Partnership, respectively, for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

*** Data required by Financial Accounting Standards Board Auditing Standards Codification No. 260 is provided in Note 9 to the Consolidated Financial Statements included in this report.

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.

DUKE REALTY CORPORATION

/s/ Dennis D. Oklak
Dennis D. Oklak
Chairman and Chief Executive Officer

/s/ Mark A. Denien
Mark A. Denien
Executive Vice President and Chief Financial Officer

DUKE REALTY LIMITED PARTNERSHIP

By: DUKE REALTY CORPORATION, its general partner

/s/ Dennis D. Oklak
Dennis D. Oklak
Chairman and Chief Executive Officer of the General Partner

/s/ Mark A. Denien
Mark A. Denien
Executive Vice President and Chief Financial Officer of the General Partner

Date: May 2, 2014