DUKE REALTY CORP
Form 10-Q
May 02, 2014

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

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

For the quarterly period ended March 31, 2014
OR

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

For the transition period from to
Commission File Number: 1-9044 (Duke Realty Corporation) 0-20625 (Duke Realty Limited Partnership)
DUKE REALTY CORPORATION
DUKE REALTY LIMITED PARTNERSHIP
(Exact Name of Registrant as Specified in Its Charter)

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

Registrant's Telephone Number, Including Area Code: (317) 808-6000
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Duke Realty Corporation	Yes x	No o	Duke Realty Limited Partnership	Yes x	No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Duke Realty Corporation	Yes x	No o	Duke Realty Limited Partnership	Yes x	No o

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

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

Duke Realty Limited Partnership:

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Duke Realty Corporation	Yes o	No x	Duke Realty Limited Partnership	Yes o	No x

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

	Outstanding Common Shares of Duke Realty Corporation at 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
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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
DUKE REALTY CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
(in thousands, except per share amounts)

	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

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

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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

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

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:

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

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						
	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Distributions in Excess of Net Income	Non-Controlling Interests	Total
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

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

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

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

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:

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

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						
	General Partner		Limited Partners'	Accumulated Other	Total		
	Common Equity	Preferred Equity	Common Equity	Comprehensive Income	Partners' Equity	Noncontrolling Interests	Total 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

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

1. General Basis of Presentation

The interim consolidated financial statements included herein have been prepared by Duke Realty Corporation (the "General Partner") and Duke Realty Limited Partnership (the "Partnership"). In this 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)

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(1) 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):

	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

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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:		