

DUKE REALTY CORP
Form 10-K
February 25, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010

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

(Exact Name of Registrant as Specified in Its Charter)

Indiana **35-1740409**
(State or Other Jurisdiction of (IRS Employer)

Incorporation or Organization) 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

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

Title of Each Class:	Name of Each Exchange on Which Registered:
Common Stock (\$.01 par value)	New York Stock Exchange New York Stock Exchange

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Depository Shares, each representing a 1/10 interest in a 6.625% Series J Cumulative Redeemable Preferred Share (\$.01 par value)	
Depository Shares, each representing a 1/10 interest in a 6.5% Series K Cumulative Redeemable Preferred Share (\$.01 par value)	New York Stock Exchange
Depository Shares, each representing a 1/10 interest in a 6.6% Series L Cumulative Redeemable Preferred Share (\$.01 par value)	New York Stock Exchange
Depository Shares, each representing 1/10 interest in a 6.95% Series M Cumulative Redeemable Preferred Share (\$.01 par value)	New York Stock Exchange
Depository Shares, each representing 1/10 interest in a 7.25% Series N Cumulative Redeemable Preferred Share (\$.01 par value)	New York Stock Exchange
Depository Shares, each representing a 1/10 interest in an 8.375% Series O Cumulative Redeemable Preferred Share (\$.01 par value)	New York Stock Exchange

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90

days. Yes No

Indicate by check mark whether the registrant has submitted electronically 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). Yes No

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

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

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). Yes No

The aggregate market value of the voting shares of the registrant's outstanding common shares held by non-affiliates of the registrant is \$2.8 billion based on the last reported sale price on June 30, 2010.

The number of common shares, \$.01 par value outstanding as of February 17, 2011 was 252,520,708.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of Duke Realty Corporation's Definitive Proxy Statement for its 2011 Annual Meeting of Shareholders (the Proxy Statement) to be filed pursuant to Rule 14a-6 of the Securities Exchange Act of 1934, as amended, are incorporated by reference into this Form 10-K. Other than those portions of the Proxy Statement specifically incorporated by reference pursuant to Items 10 through 14 of Part III hereof, no other portions of the Proxy Statement shall be deemed so incorporated.

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IMPORTANT INFORMATION ABOUT THIS REPORT

In this Annual Report on Form 10-K (this Report), the words Duke, the Company, we, us and our refer to Duke Realty Corporation and its subsidiaries, as well as Duke Realty Corporation's predecessors and their subsidiaries. DRLP refers to our subsidiary, Duke Realty Limited 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 and similar expressions or statements regarding future periods are intended to identify forward-looking statements.

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 or in the information incorporated by reference into 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, without limitation, the continuing impact of the economic down-turn, which is having and may continue to have a negative effect on the fundamentals of our business, the financial condition of our tenants, and the value of our real estate assets;

Our 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 our 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;

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 Securities and Exchange Commission (SEC).

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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 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.

This list of risks and uncertainties, however, 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 under the caption **Risk Factors** in this Report, and is updated by us from time to time in Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other filings that we make with the SEC.

PART I

Item 1. Business

Background

We are a self-administered and self-managed REIT, which began operations upon completion of our initial public offering in February 1986. In October 1993, we completed an additional common stock offering and acquired the rental real estate and service businesses of Duke Associates, whose operations began in 1972. As of December 31, 2010, our diversified portfolio of 793 rental properties (including 114 jointly controlled in-service properties with approximately 22.7 million square feet, eight consolidated properties under development with approximately 2.9 million square feet and two jointly controlled properties under development with approximately 866,000 square feet) encompasses approximately 140.5 million rentable square feet and is leased by a diverse base of approximately 3,600 tenants whose businesses include government services, manufacturing, retailing, wholesale trade, distribution, healthcare and professional services. We also own, including through ownership interests in unconsolidated joint ventures, approximately 4,800 acres of land and control an additional 1,650 acres through purchase options.

Our headquarters and executive offices are located in Indianapolis, Indiana. In addition, we have 17 regional offices located in Alexandria, Virginia; Atlanta, Georgia; Baltimore, Maryland; Chicago, Illinois; Cincinnati, Ohio; Columbus, Ohio; Dallas, Texas; Houston, Texas; Minneapolis, Minnesota; Nashville, Tennessee; Orlando, Florida; Phoenix, Arizona; Raleigh, North Carolina; St. Louis, Missouri; Savannah, Georgia; Tampa, Florida; and Weston, Florida. We had approximately 1,000 employees as of December 31, 2010.

See Item 7, **Management's Discussion and Analysis of Financial Condition and Results of Operations** for information related to our operations, asset and capital strategies.

Reportable Operating Segments

We have three reportable operating segments, the first two of which consist of the ownership and rental of office and industrial real estate investments. The operations of our office and industrial properties, along with our medical office and retail properties, are collectively referred to as **Rental Operations**. Our medical office and retail properties do not meet the quantitative thresholds for separate presentation as reportable segments.

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The third reportable segment consists of providing various real estate services such as property management, asset management, maintenance, leasing, development 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. Through our Service Operations reportable segment, we have historically developed or acquired properties with the intent to sell (hereafter referred to as Build-for-Sale properties). Build-for-Sale properties were generally identified as such prior to construction commencement and were sold within a relatively short time after being placed in service. Build-for-Sale properties, which are no longer part of our operating strategy, did not represent a significant component of our operations in 2010 or 2009.

We assess and measure our overall operating results based upon an industry performance measure referred to as Funds From Operations (FFO), which management believes is a useful indicator of our consolidated operating performance. FFO is used by industry analysts and investors as a supplemental operating performance measure of an equity REIT like Duke. The National Association of Real Estate Investment Trusts (NAREIT) created FFO as a supplemental measure of REIT operating performance that excludes historical cost depreciation, among other items, from net income determined in accordance with accounting principles generally accepted in the United States of America (GAAP). FFO is a non-GAAP financial measure. The most comparable GAAP measure is net income (loss) attributable to common shareholders. Consolidated FFO attributable to common shareholders should not be considered as a substitute for net income (loss) attributable to common shareholders or any other measures derived in accordance with GAAP and may not be comparable to other similarly titled measures of other companies. FFO is calculated in accordance with the definition that was adopted by the Board of Governors of NAREIT.

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. FFO, as defined by NAREIT, represents GAAP net income (loss), excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated 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.

Management believes that the use of consolidated FFO attributable to common shareholders, 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. Management believes that, by excluding gains or losses related to sales of previously depreciated real estate assets and excluding real estate asset depreciation and amortization, investors and analysts are able to readily identify the operating results of the long-term assets that form the core of a REIT's activity and assist in comparing these operating results between periods or as compared to different companies.

See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8, Financial Statements and Supplementary Data for financial information related to our reportable segments.

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Competitive Conditions

As a fully integrated commercial real estate firm, we provide in-house leasing, management, development and construction services which, coupled with our significant base of commercially zoned and unencumbered land in existing business parks, should give us a competitive advantage both as a real estate operator and in future development activities.

We believe that the management of real estate opportunities and risks can be done most effectively at regional or local levels. As a result, we intend to continue our emphasis on increasing our market share and effective rents in the primary markets where we own properties. We believe that this regional focus will allow us to assess market supply and demand for real estate more effectively as well as to capitalize on the strong relationships with our tenant base. In addition, we seek to further capitalize on strong customer relationships to provide third-party construction services across the United States. As a fully integrated real estate company, we are able to arrange for or provide to our industrial, office and medical office customers not only well located and well maintained facilities, but also additional services such as build-to-suit construction, tenant finish construction, and expansion flexibility.

All of our properties are located in areas that include competitive properties. Institutional investors, other REITs or local real estate operators generally own such properties; however, no single competitor or small group of competitors is dominant in our current markets. The supply and demand of similar available rental properties may affect the rental rates we will receive on our properties. Other competitive factors include the attractiveness of the property location, the quality of the property and tenant services provided, and the reputation of the owner and operator. In addition, our Service Operations face competition from a considerable number of other real estate companies that provide comparable services, some of whom may have greater marketing and financial resources than are available to us.

Corporate Governance

Since our inception, we not only have strived to be a top-performer operationally, but also to lead in issues important to investors such as disclosure and corporate governance. Our system of governance reinforces this commitment. Summarized below are the highlights of our Corporate Governance initiatives.

Board Composition	Our Board is controlled by supermajority (90.9%) of Independent Directors , as such term is defined under the rules of the New York Stock Exchange (the NYSE) as of January 30, 2011 and thereafter
Board Committees	Our Board Committee members are all Independent Directors
Lead Director	The Chairman of our Corporate Governance Committee serves as Lead Director of the Independent Directors
Board Policies	No Shareholder Rights Plan (Poison Pill)
	Code of Conduct applies to all Directors and employees, including the Chief Executive Officer and senior financial officers; waivers require the vote of a majority of our Board of Directors or our Corporate Governance Committee.
	Effective orientation program for new Directors

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Independence of Directors is reviewed annually

Independent Directors meet at least quarterly in executive sessions

Independent Directors receive no compensation from Duke other than as Directors

Equity-based compensation plans require shareholder approval

Board effectiveness and performance is reviewed annually by our Corporate Governance Committee

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Corporate Governance Committee conducts an annual review of the Chief Executive Officer succession plan

Independent Directors and all Board Committees may retain outside advisors, as they deem appropriate

Policy governing retirement age for Directors

Prohibition on repricing of outstanding stock options

Directors required to offer resignation upon job change

Majority voting for election of Directors

Shareholder Communications Policy

Ownership Minimum Stock Ownership Guidelines apply to all Directors and Executive Officers. Our Code of Conduct (which applies to all Directors and employees, including the Chief Executive Officer and senior financial officers) and the Corporate Governance Guidelines are available in the Investor Relations/Corporate Governance section of our website at www.dukerealty.com. A copy of these documents may also be obtained without charge by writing to Duke Realty Corporation, 600 East 96th Street, Suite 100, Indianapolis, Indiana 46240, Attention: Investor Relations.

Additional Information

For additional information regarding our investments and operations, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Item 8, Financial Statements and Supplementary Data. For additional information about our business segments, see Item 8, Financial Statements and Supplementary Data.

Available Information and Exchange Certifications

In addition to this Report, we file quarterly and special reports, proxy statements and other information with the SEC. All documents that are filed with the SEC are available free of charge on our corporate website, which is www.dukerealty.com. We are not incorporating the information on our website into this Report, and our website and the information appearing on our website is not included in, and is not part of, this Report. You may also read and copy any document filed at the public reference facilities of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at (800) SEC-0330 for further information about the public reference facilities. These documents also may be accessed through the SEC's Interactive Data Electronic Application (IDEA) via the SEC's home page on the Internet (<http://www.sec.gov>). In addition, since some of our securities are listed on the NYSE, you may read our SEC filings at the offices of the NYSE, 20 Broad Street, New York, New York 10005.

The NYSE requires that the Chief Executive Officer of each listed company certify annually to the NYSE that he or she is not aware of any violation by the company of NYSE corporate governance listing standards as of the date of such certification. We submitted the certification of our Chairman and Chief Executive Officer, Dennis D. Oklak, with our 2010 Annual Written Affirmation to the NYSE on May 13, 2010.

We included the certifications of our Chief Executive Officer and our Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002 and related rules, relating to the quality of the Company's public disclosure, in this Report as Exhibits 31.1 and 31.2.

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Item 1A. Risk Factors

In addition to the other information contained in this Report, you should carefully consider, in consultation with your legal, financial and other professional advisors, the risks described below, as well as the risk factors and uncertainties discussed in our other public filings with the SEC under the caption "Risk Factors" in evaluating us and our business before making a decision regarding an investment in our securities.

The risks contained in this Report are not the only risks that we face. Additional risks that are not presently known, or that we presently deem to be immaterial, also could have a material adverse effect on our financial condition, results of operations, business and prospects. The trading price of our securities could decline due to the materialization of any of these risks, and our shareholders may lose all or part of their investment.

This Report also contains forward-looking statements that may not be realized as a result of certain factors, including, but not limited to, the risks described herein and in our other public filings with the SEC. Please refer to the section in this Report entitled "Cautionary Notice Regarding Forward-Looking Statements" for additional information regarding forward-looking statements.

Risks Related to Our Business

Our use of debt financing could have a material adverse effect on our financial condition.

We are subject to the risks normally associated with debt financing, including the risk that our cash flow will be insufficient to meet required principal and interest payments and the long-term risk that we will be unable to refinance our existing indebtedness, or that the terms of such refinancing will not be as favorable as the terms of existing indebtedness. Additionally, we may not be able to refinance borrowings at our unconsolidated subsidiaries on favorable terms or at all. If our debt cannot be paid, refinanced or extended, we may not be able to make distributions to shareholders at expected levels. Further, if prevailing interest rates or other factors at the time of a refinancing result in higher interest rates or other restrictive financial covenants upon the refinancing, then such refinancing would adversely affect our cash flow and funds available for operation, development and distribution.

We are also subject to financial covenants under our existing debt instruments. Should we fail to comply with the covenants in our existing debt instruments, then we would not only be in breach under the applicable debt instruments but we would also likely be unable to borrow any further amounts under our other debt instruments, which could adversely affect our ability to fund operations. We also have incurred, and may incur in the future, indebtedness that bears interest at variable rates. Thus, if market interest rates increase, so will our debt expense, which could reduce our cash flow and our ability to make distributions to shareholders at expected levels.

Debt financing may not be available and equity issuances could be dilutive to our shareholders.

Our ability to execute our business strategy depends on our access to an appropriate blend of debt financing, including unsecured lines of credit and other forms of secured and unsecured debt, and equity financing, including common and preferred equity. Debt financing may not be available over a longer period of time in sufficient amounts, on favorable terms or at all. If we issue additional equity securities, instead of debt, to manage capital needs, the interests of our existing shareholders could be diluted.

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Financial and other covenants under existing credit agreements could limit our flexibility and adversely affect our financial condition.

The terms of our various credit agreements and other indebtedness require that we comply with a number of customary financial and other covenants, such as maintaining debt service coverage and leverage ratios and maintaining insurance coverage. These covenants may limit our flexibility in our operations, and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness even if we have satisfied our payment obligations. If we are unable to refinance our indebtedness at maturity or meet our payment obligations, the amount of our distributable cash flow would be adversely affected.

Downgrades in our credit ratings could increase our borrowing costs or reduce our access to funding sources in the credit and capital markets.

We have a significant amount of debt outstanding, consisting mostly of unsecured debt. We are currently assigned corporate credit ratings from Moody's Investors Service, Inc. and Standard and Poor's Ratings Group (S&P) based on their evaluation of our creditworthiness. These agencies' ratings are based on a number of factors, some of which are not within our control. In addition to factors specific to our financial strength and performance, the rating agencies also consider conditions affecting REITs generally. In January 2010, S&P downgraded our credit rating. All of our debt ratings remain investment grade, but in light of the difficulties continuing to confront the economy generally, including, among others, the weak global economic conditions, credit market disruptions, and the severe stress on commercial real estate markets, there can be no assurance that we will not be further downgraded or that any of our ratings will remain investment grade. If our credit ratings are further downgraded or other negative action is taken, we could be required, among other things, to pay additional interest and fees on outstanding borrowings under our revolving credit agreement.

Further credit rating reductions by one or more rating agencies could also adversely affect our access to funding sources, the cost and other terms of obtaining funding as well as our overall financial condition, operating results and cash flow.

If we are unable to generate sufficient capital and liquidity, then we may be unable to pursue future development projects and other strategic initiatives.

To complete our ongoing and planned development projects, and to pursue our other strategic initiatives, we must continue to generate sufficient capital and liquidity to fund those activities. To generate that capital and liquidity, we rely upon funds from our existing operations, as well as funds that we raise through our capital raising activities. In the event that we are unable to generate sufficient capital and liquidity to meet our long-term needs, or if we are unable to generate capital and liquidity on terms that are favorable to us, then we may not be able to pursue development projects, acquisitions, or our other long-term strategic initiatives.

Our stock price and trading volume may be volatile, which could result in substantial losses to our shareholders.

The market price of our common and preferred stock could change in ways that may or may not be related to our business, our industry or our operating performance and financial condition. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. Some of the factors that could negatively affect our share price, or result in fluctuations in the price or trading volume of our common stock, include uncertainty in the markets, general market and economic conditions, as well as those factors described in these Risk Factors and in other reports that we file with the SEC.

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Many of these factors are beyond our control, and we cannot predict their potential effects on the price of our common and preferred stock. If the market prices of our common and preferred stock decline, then our shareholders may be unable to resell their shares upon terms that are attractive to them. We cannot assure that the market price of our common and preferred stock will not fluctuate or decline significantly in the future. In addition, the securities markets in general may experience considerable unexpected price and volume fluctuations.

We may issue debt and equity securities which are senior to our common stock and preferred stock as to distributions and in liquidation, which could negatively affect the value of our common and preferred stock.

In the future, we may attempt to increase our capital resources by entering into debt or debt-like financing that is unsecured or secured by certain of our assets, or issuing debt or equity securities, which could include issuances of secured or unsecured commercial paper, medium-term notes, senior notes, subordinated notes, preferred stock or common stock. In the event of our liquidation, our lenders and holders of our debt securities would receive a distribution of our available assets before distributions to the holders of our common stock and preferred stock. Our preferred stock has a preference over our common stock with respect to distributions and upon liquidation, which could further limit our ability to make distributions to our common shareholders. Any additional preferred stock that we may issue may have a preference over our common stock and existing series of preferred stock with respect to distributions and upon liquidation.

We may be required to seek commercial credit and issue debt securities to manage our capital needs. Because our decision to incur debt and issue securities in our future offerings will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings and debt financings. Further, market conditions could require us to accept less favorable terms for the issuance of our securities in the future. Thus, our shareholders will bear the risk of our future offerings reducing the value of their shares of common stock and diluting their interest in us.

Our use of joint ventures may limit our flexibility with jointly owned investments.

We currently have joint ventures that are not consolidated with our financial statements. We may develop and acquire properties in joint ventures with other persons or entities when circumstances warrant the use of these structures. Our participation in joint ventures is subject to the risks that:

We could become engaged in a dispute with any of our joint venture partners that might affect our ability to develop or operate a property;

Our joint venture partners may have different objectives than we have regarding the appropriate timing and terms of any sale or refinancing of properties;

Our joint venture partners may have competing interests in our markets that could create conflict of interest issues; and

Maturities of debt encumbering our jointly owned investments may not be able to be refinanced at all or on terms that are as favorable as the current terms.

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Risks Related to the Real Estate Industry

Our net earnings available for investment or distribution to shareholders could decrease as a result of factors related to the ownership and operation of commercial real estate that are outside of our control.

Our business is subject to the risks incident to the ownership and operation of commercial real estate, many of which involve circumstances not within our control. Such risks include the following:

Changes in the general economic climate;

The availability of capital on favorable terms, or at all;

Increases in interest rates;

Local conditions such as oversupply of property or a reduction in demand;

Competition for tenants;

Changes in market rental rates;

Oversupply or reduced demand for space in the areas where our properties are located;

Delay or inability to collect rent from tenants who are bankrupt, insolvent or otherwise unwilling or unable to pay;

Difficulty in leasing or re-leasing space quickly or on favorable terms;

Costs associated with periodically renovating, repairing and reletting rental space;

Our ability to provide adequate maintenance and insurance on our properties;

Our ability to control variable operating costs;

Changes in government regulations; and

Potential liability under, and changes in, environmental, zoning, tax and other laws. Further, a significant portion of our costs, such as real estate taxes, insurance and maintenance costs and our debt service payments, are generally not reduced when circumstances cause a decrease in cash flow from our properties. Any one or more of these factors could result in a reduction in our net earnings available for investment or distribution to shareholders.

Many real estate costs are fixed, even if income from properties decreases.

Our financial results depend on leasing space in our real estate to tenants on terms favorable to us. Our income and funds available for distribution to our shareholders will decrease if a significant number of our tenants cannot meet their lease obligations to us or we are unable to lease properties on favorable terms. In addition, if a tenant does not pay its rent, we may not be able to enforce our rights as landlord without delays and we may incur substantial legal costs. Costs associated with real estate investment, such as real estate taxes and maintenance costs, generally are not reduced when circumstances cause a reduction in income from the investment.

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Our real estate development activities are subject to risks particular to development.

We continue to selectively develop new pre-leased properties for rental operations in our existing markets when accretive returns are present. These development activities generally require various government and other approvals, which we may not receive. In addition, we also are subject to the following risks associated with development activities:

Unsuccessful development opportunities could result in direct expenses to us;

Construction costs of a project may exceed original estimates, possibly making the project less profitable than originally estimated, or possibly unprofitable;

Time required to complete the construction of a project or to lease up the completed project may be greater than originally anticipated, thereby adversely affecting our cash flow and liquidity;

Occupancy rates and rents of a completed project may not be sufficient to make the project profitable;

Our ability to dispose of non-strategic properties we identify for sale could be impacted by the ability of prospective buyers to obtain financing given the current state of the credit markets; and

Favorable sources to fund our development activities may not be available.

We may be unsuccessful in operating completed real estate projects.

We face the risk that the real estate projects we develop or acquire will not perform in accordance with our expectations. This risk exists because of factors such as the following:

Prices paid for acquired facilities are based upon a series of market judgments; and

Costs of any improvements required to bring an acquired facility up to standards to establish the market position intended for that facility might exceed budgeted costs.

Further, we can give no assurance that acquisition targets meeting our guidelines for quality and yield will continue to be available.

We are exposed to the risks of defaults by tenants.

Any of our tenants may experience a downturn in their businesses that may weaken their financial condition. In the event of default or the insolvency of a significant number of our tenants, we may experience a substantial loss of rental revenue and/or delays in collecting rent and incur substantial costs in enforcing our rights as landlord. If a

tenant files for bankruptcy protection, a court could allow the tenant to reject and terminate its lease with us. Our income and distributable cash flow would be adversely affected if a significant number of our tenants became unable to meet their obligations to us, became insolvent or declared bankruptcy.

We may be unable to renew leases or relet space.

When our tenants decide not to renew their leases upon their expiration, we may not be able to relet the space. Even if our tenants do renew or we are able to relet the space, the terms of renewal or reletting (including the cost of renovations, if necessary) may be less favorable than current lease terms. If we are unable to promptly renew the leases or relet the space, or if the rental rates upon such renewal or reletting are significantly lower than current rates, then our income and distributable cash flow would be adversely affected, especially if we were unable to lease a significant amount of the space vacated by tenants in our properties.

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Our insurance coverage on our properties may be inadequate.

We maintain comprehensive insurance on each of our facilities, including property, liability, fire, flood and extended coverage. We believe this coverage is of the type and amount customarily obtained for real property. However, there are certain types of losses, generally of a catastrophic nature, such as earthquakes, hurricanes and floods or acts of war or terrorism that may be uninsurable or not economically insurable. We use our discretion when determining amounts, coverage limits and deductibles for insurance. These terms are determined based on retaining an acceptable level of risk at a reasonable cost. This may result in insurance coverage that in the event of a substantial loss would not be sufficient to pay the full current market value or current replacement cost of our lost investment. Inflation, changes in building codes and ordinances, environmental considerations and other factors also may make it unfeasible to use insurance proceeds to replace a facility after it has been damaged or destroyed. Under such circumstances, the insurance proceeds we receive may not be adequate to restore our economic position in a property. If an insured loss occurred, we could lose both our investment in and anticipated profits and cash flow from a property, and we would continue to be obligated on any mortgage indebtedness or other obligations related to the property. Although we believe our insurance is with highly rated providers, we are also subject to the risk that such providers may be unwilling or unable to pay our claims when made.

Acquired properties may expose us to unknown liability.

From time to time, we may acquire properties subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities. As a result, if a liability were asserted against us based upon ownership of those properties, we might have to pay substantial sums to settle or contest it, which could adversely affect our results of operations and cash flow. Unknown liabilities with respect to acquired properties might include:

liabilities for clean-up of undisclosed environmental contamination;

claims by tenants, vendors or other persons against the former owners of the properties;

liabilities incurred in the ordinary course of business; and

claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

We could be exposed to significant environmental liabilities as a result of conditions of which we currently are not aware.

As an owner and operator of real property, we may be liable under various federal, state and local laws for the costs of removal or remediation of certain hazardous substances released on or in our property. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of the hazardous substances. In addition, we could have greater difficulty in selling real estate on which hazardous substances were present or in obtaining borrowings using such real estate as collateral. It is our general policy to have Phase I environmental audits performed for all of our properties and land by qualified environmental consultants. These Phase I environmental audits have not revealed any environmental liability that would have a material adverse effect on our business. However, a Phase I environmental audit does not involve invasive procedures such as soil sampling or

ground water analysis, and we cannot be sure that the Phase I environmental audits did not fail to reveal a significant environmental liability or that a prior owner did not create a material environmental condition on our properties or land which has not yet been discovered. We could also incur environmental liability as a result of future uses or conditions of such real estate or changes in applicable environmental laws.

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We are exposed to the potential impacts of future climate change and climate-change related risks.

We are exposed to potential physical risks from possible future changes in climate. Our properties may be exposed to rare catastrophic weather events, such as severe storms and/or floods. If the frequency of extreme weather events increases due to climate change, our exposure to these events could increase.

We do not currently consider that we are exposed to regulatory risk related to climate change. However, we may be adversely impacted as a real estate developer in the future by stricter energy efficiency standards for buildings.

Risks Related to Our Organization and Structure

If we were to cease to qualify as a REIT, we and our shareholders would lose significant tax benefits.

We intend to continue to operate so as to qualify as a REIT under the Internal Revenue Code of 1986, as amended (the Code). Qualification as a REIT provides significant tax advantages to us and our shareholders. However, in order for us to continue to qualify as a REIT, we must satisfy numerous requirements established under highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations. Satisfaction of these requirements also depends on various factual circumstances not entirely within our control. The fact that we hold our assets through an operating partnership and its subsidiaries further complicates the application of the REIT requirements. Even a technical or inadvertent mistake could jeopardize our REIT status. Although we believe that we can continue to operate so as to qualify as a REIT, we cannot offer any assurance that we will continue to do so or that legislation, new regulations, administrative interpretations or court decisions will not significantly change the qualification requirements or the federal income tax consequences of qualification. If we were to fail to qualify as a REIT in any taxable year, it would have the following effects:

We would not be allowed a deduction for distributions to shareholders and would be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates;

Unless we were entitled to relief under certain statutory provisions, we would be disqualified from treatment as a REIT for the four taxable years following the year during which we ceased to qualify as a REIT;

Our net earnings available for investment or distribution to our shareholders would decrease due to the additional tax liability for the year or years involved; and

We would no longer be required to make any distributions to shareholders in order to qualify as a REIT. As such, failure to qualify as a REIT would likely have a significant adverse effect on the value of our securities.

REIT distribution requirements limit the amount of cash we have available for other business purposes, including amounts that we need to fund our future capital needs.

To maintain our qualification as a REIT under the Code, we must annually distribute to our shareholders at least 90% of our ordinary taxable income, excluding net capital gains. We intend to continue to make distributions to our shareholders to comply with the 90% distribution requirement. However, this requirement limits our ability to

accumulate capital for use for other business purposes. If we do not have sufficient cash or other liquid assets to meet the distribution requirements, we may have to borrow funds or sell properties on adverse terms in order to meet the distribution requirements. If we fail to make a required distribution, we would cease to qualify as a REIT.

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U.S. federal income tax treatment of REITs and investments in REITs may change, which may result in the loss of our tax benefits of operating as a REIT.

The present U.S. federal income tax treatment of a REIT and an investment in a REIT may be modified by legislative, judicial or administrative action at any time. Revisions in U.S. federal income tax laws and interpretations of these laws could adversely affect us and the tax consequences of an investment in our common shares.

We are subject to certain provisions that could discourage change-of-control transactions, which may reduce the likelihood of our shareholders receiving a control premium for their shares.

Indiana anti-takeover legislation and certain provisions in our governing documents, as we discuss below, may discourage potential acquirers from pursuing a change-of-control transaction with us. As a result, our shareholders may be less likely to receive a control premium for their shares.

Unissued Preferred Stock. Our charter permits our board of directors to classify unissued preferred stock by setting the rights and preferences of the shares at the time of issuance. This power enables our board to adopt a shareholder rights plan, also known as a poison pill. Although we have repealed our previously existing poison pill and our current board of directors has adopted a policy not to issue preferred stock as an anti-takeover measure, our board can change this policy at any time. The adoption of a poison pill would discourage a potential bidder from acquiring a significant position in the company without the approval of our board.

Business-Combination Provisions of Indiana Law. We have not opted out of the business-combination provisions of the Indiana Business Corporation Law. As a result, potential bidders may have to negotiate with our board of directors before acquiring 10% of our stock. Without securing board approval of the proposed business combination before crossing the 10% ownership threshold, a bidder would not be permitted to complete a business combination for five years after becoming a 10% shareholder. Even after the five-year period, a business combination with the significant shareholder would require a fair price as defined in the Indiana Business Corporation Law or the approval of a majority of the disinterested shareholders.

Control-Share-Acquisition Provisions of Indiana Law. We have not opted out of the provisions of the Indiana Business Corporation Law regarding acquisitions of control shares. Therefore, those who acquire a significant block (at least 20%) of our shares may only vote a portion of their shares unless our other shareholders vote to accord full voting rights to the acquiring person. Moreover, if the other shareholders vote to give full voting rights with respect to the control shares and the acquiring person has acquired a majority of our outstanding shares, the other shareholders would be entitled to special dissenters' rights.

Supermajority Voting Provisions. Our charter prohibits business combinations or significant disposition transactions with a holder of 10% of our shares unless:

The holders of 80% of our outstanding shares of capital stock approve the transaction;

The transaction has been approved by three-fourths of those directors who served on the board before the shareholder became a 10% owner; or

The significant shareholder complies with the fair price provisions of our charter. Among the transactions with large shareholders requiring the supermajority shareholder approval are dispositions of assets with a value greater than or equal to \$1,000,000 and business combinations.

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Operating Partnership Provisions. The limited partnership agreement of DRLP contains provisions that could discourage change-of-control transactions, including a requirement that holders of at least 90% of the outstanding partnership units held by us and other unit holders approve:

Any voluntary sale, exchange, merger, consolidation or other disposition of all or substantially all of the assets of DRLP in one or more transactions other than a disposition occurring upon a financing or refinancing of DRLP;

Our merger, consolidation or other business combination with another entity unless after the transaction substantially all of the assets of the surviving entity are contributed to DRLP in exchange for units;

Our transfer of our interests in DRLP other than to one of our wholly owned subsidiaries; and

Any reclassification or recapitalization or change of outstanding shares of our common stock other than certain changes in par value, stock splits, stock dividends or combinations.

We are dependent on key personnel.

Our executive officers and other senior officers have a significant role in the success of our Company. Our ability to retain our management group or to attract suitable replacements should any members of the management group leave our Company is dependent on the competitive nature of the employment market. The loss of services from key members of the management group or a limitation in their availability could adversely impact our financial condition and cash flow. Further, such a loss could be negatively perceived in the capital markets.

Item 1B. Unresolved Staff Comments

We have no unresolved comments with the SEC staff regarding our periodic or current reports under the Exchange Act.

Item 2. Properties

Product Review

As of December 31, 2010, we own interests in a diversified portfolio of 793 commercial properties encompassing approximately 140.5 million net rentable square feet (including 114 jointly controlled in-service properties with approximately 22.7 million square feet, eight consolidated properties under development with approximately 2.9 million square feet and two jointly controlled properties under development with approximately 866,000 square feet).

Industrial Properties: We own interests in 467 industrial properties encompassing more than 101.5 million square feet (72% of total square feet). These properties primarily consist of bulk warehouses (industrial warehouse/distribution centers with clear ceiling heights of 20 feet or more), but also include service center properties (also known as flex buildings or light industrial, having 12-18 foot clear ceiling heights and a combination of drive-up

and dock-height loading access). Of these properties, 397 buildings with more than 84.5 million square feet are consolidated and 70 buildings with more than 17.0 million square feet are jointly controlled.

Office Properties: We own interests in 290 office buildings totaling approximately 34.7 million square feet (26% of total square feet). These properties include primarily suburban office properties. Of these properties, 248 buildings with approximately 29.3 million square feet are consolidated and 42 buildings with approximately 5.4 million square feet are jointly controlled.

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Other Properties: We own interests in 36 medical office and retail buildings totaling approximately 4.3 million square feet (2% of total square feet). Of these properties, 32 buildings with approximately 3.2 million square feet are consolidated and four buildings with more than 1.1 million square feet are jointly controlled.

Land: We own, including through ownership interests in unconsolidated joint ventures, approximately 4,800 acres of land and control an additional 1,650 acres through purchase options.

Property Descriptions

The following tables represent the geographic highlights of consolidated and jointly controlled in-service properties in our primary markets.

Consolidated Properties

Primary Market	Square Feet				Percent of Overall	Annual Net Effective Rent (1)	Percent of Annual Net Effective Rent
	Industrial	Office	Other	Overall			
Indianapolis	16,001,378	2,686,406	819,899	19,507,683	17.1%	\$ 97,392,192	14.3%
Cincinnati	10,461,024	5,007,148	107,470	15,575,642	13.7%	84,327,922	12.4%
Atlanta	8,320,351	3,883,039	386,355	12,589,745	11.0%	74,217,168	10.9%
Chicago	7,212,854	2,685,963	56,531	9,955,348	8.7%	62,412,686	9.2%
South Florida	3,602,978	1,331,877	390,942	5,325,797	4.7%	54,073,903	7.9%
Raleigh	2,101,449	2,615,802	210,834	4,928,085	4.3%	47,140,818	6.9%
Columbus	5,303,537	2,791,482	73,238	8,168,257	7.2%	45,775,822	6.7%
St. Louis	3,763,928	2,681,290	-	6,445,218	5.6%	42,433,249	6.2%
Nashville	3,252,010	1,368,513	120,658	4,741,181	4.2%	34,345,441	5.0%
Central Florida	3,360,479	1,177,540	84,130	4,622,149	4.0%	31,141,654	4.6%
Minneapolis	3,363,691	1,028,803	-	4,392,494	3.8%	28,343,158	4.2%
Dallas	5,379,082	463,283	279,127	6,121,492	5.4%	23,363,015	3.4%
Savannah	6,784,550	-	-	6,784,550	5.9%	20,655,208	3.0%
Cleveland	-	1,324,451	-	1,324,451	1.2%	12,470,052	1.8%
Houston	1,418,380	-	-	1,418,380	1.2%	8,070,693	1.2%
Baltimore	462,070	-	-	462,070	0.4%	2,659,588	0.4%
Norfolk	466,000	-	-	466,000	0.4%	2,290,177	0.3%
Washington DC	78,560	219,464	-	298,024	0.3%	1,551,605	0.2%
Phoenix	445,056	-	-	445,056	0.4%	1,503,398	0.2%
Austin	-	-	96,829	96,829	0.1%	865,940	0.1%
Other (2)	120,000	-	289,855	409,855	0.4%	7,462,020	1.1%
Total	81,897,377	29,265,061	2,915,868	114,078,306	100.0%	\$ 682,495,709	100.0%
	71.8%	25.7%	2.5%	100.0%			

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Jointly Controlled Properties

	Square Feet				Percent of Overall	Annual Net Effective Rent (1)	Percent of Annual Net Effective Rent
	Industrial	Office	Other	Overall			
Primary Market							
Washington DC	658,322	2,146,378	-	2,804,700	12.4%	\$ 15,173,023	30.9%
Dallas	8,080,278	182,700	62,390	8,325,368	36.7%	12,174,115	24.8%
Central Florida	908,422	624,796	-	1,533,218	6.8%	3,806,761	7.7%
Minneapolis	-	-	381,922	381,922	1.7%	3,739,485	7.6%
Raleigh	-	687,549	-	687,549	3.0%	3,302,290	6.7%
Indianapolis	4,182,919	89,178	-	4,272,097	18.9%	2,980,929	6.1%
Phoenix	1,425,062	-	-	1,425,062	6.3%	1,529,334	3.1%
Cincinnati	211,486	190,733	206,315	608,534	2.7%	1,190,723	2.4%
Atlanta	-	436,275	-	436,275	1.9%	1,148,881	2.3%
Columbus	1,142,400	135,485	-	1,277,885	5.6%	1,044,676	2.1%
South Florida	-	222,600	-	222,600	1.0%	970,684	2.0%
St. Louis	-	252,378	-	252,378	1.1%	766,237	1.6%
Houston	-	248,925	-	248,925	1.1%	751,874	1.5%
Nashville	-	180,147	-	180,147	0.8%	597,195	1.2%
Total	16,608,889	5,397,144	650,627	22,656,660	100.0%	\$ 49,176,207	100.0%
	73.3%	23.8%	2.9%	100.0%			

	Occupancy %				Occupancy %			
	Industrial	Consolidated Properties		Overall	Jointly Controlled Properties			Overall
	Industrial	Office	Other	Overall	Industrial	Office	Other	Overall
Primary Market								
Indianapolis	95.5%	88.0%	85.3%	94.1%	96.6%	82.9%	-	96.3%
Cincinnati	85.2%	&nbs						