DUKE REALTY CORP
Form 10-Q
October 27, 2017

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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 September 30, 2017

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Duke Realty Corporation:

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Duke Realty Limited Partnership:

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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 October 25, 2017**
Common Stock 0.01 par value per share	356,140,850

EXPLANATORY NOTE

This report (the "Report") combines the quarterly reports on Form 10-Q for the period ended September 30, 2017 of both Duke Realty Corporation and Duke Realty Limited Partnership. Unless stated otherwise or the context otherwise requires, references to "Duke Realty Corporation" or the "General Partner" mean Duke Realty Corporation and its consolidated subsidiaries, and references to the "Partnership" mean Duke Realty Limited Partnership and its consolidated subsidiaries. The terms the "Company," "we," "us" and "our" refer to the General Partner and the Partnership, collectively, and those entities owned or controlled by the General Partner and/or the Partnership.

Duke Realty Corporation is a self-administered and self-managed real estate investment trust ("REIT") and is the sole general partner of the Partnership, owning 99.1% of the common partnership interests of the Partnership ("General Partner Units") as of September 30, 2017. The remaining 0.9% of the common partnership interests ("Limited Partner Units" and, together with the General Partner Units, the "Common Units") are owned by Limited Partners. As the sole general partner of the Partnership, the General Partner has full, exclusive and complete responsibility and discretion in the day-to-day management and control of the Partnership.

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

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

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

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

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

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

DUKE REALTY CORPORATION/DUKE REALTY LIMITED PARTNERSHIP
INDEX

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

	September 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Real estate investments:		
Real estate assets	**$ 6,091,861**	$ 5,144,805
Construction in progress	**441,005**	303,644
Investments in and advances to unconsolidated companies	**135,089**	197,807
Undeveloped land	**167,928**	237,436
	6,835,883	5,883,692
Accumulated depreciation	**(1,159,493)**	(1,042,944)
Net real estate investments	**5,676,390**	4,840,748
Real estate investments and other assets held-for-sale	**63,604**	1,324,258
Cash and cash equivalents	**27,315**	12,639
Accounts receivable, net of allowance of $1,020 and $1,391	**20,605**	15,838
Straight-line rent receivable, net of allowance of $3,655 and $5,268	**91,045**	82,554
Receivables on construction contracts, including retentions	**10,343**	6,159
Deferred leasing and other costs, net of accumulated amortization of $206,242 and $186,798	**279,891**	258,741
Restricted cash held in escrow for like-kind exchange	**512,520**	40,102
Notes receivable from property sales	**426,678**	25,460
Other escrow deposits and assets	**189,080**	165,503
	$ 7,297,471	$ 6,772,002
LIABILITIES AND EQUITY		
Indebtedness:		
Secured debt, net of deferred financing costs of $699 and $969	**$ 312,776**	$ 383,725
Unsecured debt, net of deferred financing costs of $18,583 and $22,083	**1,814,104**	2,476,752
Unsecured line of credit	**5,000**	48,000
	2,131,880	2,908,477
Liabilities related to real estate investments held-for-sale	**2,653**	56,291
Construction payables and amounts due subcontractors, including retentions	**70,432**	44,250
Accrued real estate taxes	**83,152**	59,112
Accrued interest	**24,547**	23,633
Other liabilities	**195,147**	153,846
Tenant security deposits and prepaid rents	**36,285**	33,100
Total liabilities	**2,544,096**	3,278,709
Shareholders' equity:		
Common shares ($0.01 par value); 600,000 shares authorized; 356,130 and 354,756 shares issued and outstanding, respectively	**3,561**	3,548
Additional paid-in capital	**5,195,151**	5,192,011
Accumulated other comprehensive income	**—**	682
Distributions in excess of net income	**(488,328)**	(1,730,423)

Total shareholders' equity	**4,710,384**	3,465,818
Noncontrolling interests	**42,991**	27,475
Total equity	**4,753,375**	3,493,293
	$ 7,297,471	$ 6,772,002

See accompanying Notes to Consolidated Financial Statements

3

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

	Three Months Ended		Nine Months Ended	
	2017	2016	**2017**	2016
Revenues:				
Rental and related revenue	**$169,611**	$162,322	**$507,123**	$480,819
General contractor and service fee revenue	**25,217**	19,351	**58,192**	68,546
	194,828	181,673	**565,315**	549,365
Expenses:				
Rental expenses	**16,224**	16,933	**46,967**	54,685
Real estate taxes	**28,157**	26,001	**81,569**	75,687
General contractor and other services expenses	**24,079**	17,182	**54,077**	60,330
Depreciation and amortization	**67,992**	61,820	**197,028**	182,489
	136,452	121,936	**379,641**	373,191
Other operating activities:				
Equity in earnings of unconsolidated companies	**1,841**	12,010	**58,523**	37,404
Gain on dissolution of unconsolidated company	**—**	—	**—**	30,697
Promote income	**—**	2,212	**20,007**	26,299
Gain on sale of properties	**21,952**	82,698	**93,339**	137,589
Gain on land sales	**5,665**	1,601	**8,449**	2,438
Other operating expenses	**(770)**	(1,424)	**(2,226)**	(3,496)
Impairment charges	**(3,622)**	(3,042)	**(4,481)**	(15,098)
General and administrative expenses	**(10,075)**	(12,534)	**(41,165)**	(42,216)
	14,991	81,521	**132,446**	173,617
Operating income	**73,367**	141,258	**318,120**	349,791
Other income (expenses):				
Interest and other income, net	**6,404**	507	**9,197**	3,597
Interest expense	**(20,835)**	(27,283)	**(65,401)**	(87,255)
Loss on debt extinguishment	**(16,568)**	(6,243)	**(26,104)**	(8,673)
Acquisition-related activity	**—**	(7)	**—**	(82)
Income from continuing operations before income taxes	**42,368**	108,232	**235,812**	257,378
Income tax (expense) benefit	**(359)**	359	**(7,918)**	173
Income from continuing operations	**42,009**	108,591	**227,894**	257,551
Discontinued operations:				
Income before gain on sales	**2,563**	4,249	**17,747**	9,062
Gain on sale of depreciable properties	**120,179**	319	**1,229,270**	485
Income tax (expense) benefit	**876**	—	**(10,736)**	—
Income from discontinued operations	**123,618**	4,568	**1,236,281**	9,547
Net income	**165,627**	113,159	**1,464,175**	267,098
Net income attributable to noncontrolling interests	**(358)**	(1,145)	**(18,163)**	(2,710)
Net income attributable to common shareholders	**$165,269**	$112,014	**$1,446,012**	$264,388
Basic net income per common share:				
Continuing operations attributable to common shareholders	**$0.12**	$0.31	**$0.63**	$0.72
Discontinued operations attributable to common shareholders	**0.34**	0.01	**3.43**	0.03
Total	**$0.46**	$0.32	**$4.06**	$0.75
Diluted net income per common share:				
Continuing operations attributable to common shareholders	**$0.12**	$0.31	**$0.63**	$0.72

Discontinued operations attributable to common shareholders	**0.34**	0.01	**3.40**	0.03
Total	**$0.46**	$0.32	**$4.03**	$0.75
Weighted average number of common shares outstanding	**355,905**	351,856	**355,614**	348,341
Weighted average number of common shares and potential dilutive securities	**362,102**	358,981	**361,947**	355,405
Comprehensive income:				
Net income	**$165,627**	$113,159	**$1,464,175**	$267,098
Other comprehensive loss:				
Amortization of interest contracts	**—**	(255)	**(682)**	(845)
Other	**—**	(23)	**—**	(23)
Total other comprehensive loss	**—**	(278)	**(682)**	(868)
Comprehensive income	**$165,627**	$112,881	**$1,463,493**	$266,230

See accompanying Notes to Consolidated Financial Statements

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

	2017	2016
Cash flows from operating activities:		
Net income	**$1,464,175**	$267,098
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of buildings and tenant improvements	**179,918**	191,554
Amortization of deferred leasing and other costs	**42,996**	47,093
Amortization of deferred financing costs	**4,049**	3,998
Straight-line rental income and expense, net	**(12,021)**	(10,832)
Impairment charges	**4,481**	15,098
Loss on debt extinguishment	**26,104**	8,673
Gain on dissolution of unconsolidated company	**—**	(30,697)
Gains on land and depreciated property sales	**(1,331,058)**	(140,512)
Third-party construction contracts, net	**2,679**	5,601
Other accrued revenues and expenses, net	**24,474**	21,832
Equity in earnings in excess of operating distributions received from unconsolidated companies	**(45,298)**	(24,476)
Net cash provided by operating activities	**360,499**	354,430
Cash flows from investing activities:		
Development of real estate investments	**(421,702)**	(308,199)
Acquisition of real estate investments and related intangible assets	**(620,869)**	(16,029)
Acquisition of undeveloped land	**(127,662)**	(77,593)
Second generation tenant improvements, leasing costs and building improvements	**(34,350)**	(39,169)
Other deferred leasing costs	**(22,399)**	(25,949)
Other assets	**(492,982)**	164,450
Proceeds from land and depreciated property sales, net	**2,282,419**	369,118
Capital distributions from unconsolidated companies	**111,635**	52,514
Capital contributions and advances to unconsolidated companies	**(6,303)**	(54,853)
Net cash provided by investing activities	**667,787**	64,290
Cash flows from financing activities:		
Proceeds from issuance of common shares, net	**7,309**	217,513
Proceeds from unsecured debt	**—**	375,000
Payments on unsecured debt	**(691,492)**	(285,339)
Payments on secured indebtedness including principal amortization	**(71,154)**	(352,723)
Repayments of line of credit, net	**(43,000)**	(71,000)
Distributions to common shareholders	**(202,770)**	(187,885)
Distributions to noncontrolling interests	**(8,407)**	(1,955)
Tax payments on stock-based compensation awards	**(14,868)**	(7,059)
Change in book overdrafts	**11,245**	(11,025)
Deferred financing costs	**(16)**	(6,569)
Redemption of Limited Partner Units	**(457)**	—
Net cash used for financing activities	**(1,013,610)**	(331,042)
Net increase in cash and cash equivalents	**14,676**	87,678
Cash and cash equivalents at beginning of period	**12,639**	22,533
Cash and cash equivalents at end of period	**$27,315**	$110,211

Non-cash investing and financing activities:

Notes receivable from buyers in property sales	**$404,846**	$1,685
Conversion of Limited Partner Units to common shares	**$1,714**	~~$~~1,015

See accompanying Notes to Consolidated Financial Statements

DUKE REALTY CORPORATION AND SUBSIDIARIES
Consolidated Statement of Changes in Equity
For the nine months ended September 30, 2017
(in thousands, except per share data)
(Unaudited)

	Common Shareholders					
	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Distributions in Excess of Net Income	Noncontrolling Interests	Total
Balance at December 31, 2016	**$ 3,548**	**$ 5,192,011**	**$ 682**	**$ (1,730,423)**	**$ 27,475**	**$ 3,493,293**
Net income	—	—	—	1,446,012	18,163	1,464,175
Other comprehensive loss	—	—	(682)	—	—	(682)
Issuance of common shares	3	7,306	—	—	—	7,309
Stock-based compensation plan activity	9	(5,510)	—	(1,147)	7,562	914
Conversion/redemption of Limited Partner Units	1	1,344	—	—	(1,802)	(457)
Distributions to common shareholders ($0.57 per share)	—	—	—	(202,770)	—	(202,770)
Distributions to noncontrolling interests	—	—	—	—	(8,407)	(8,407)
Balance at September 30, 2017	**$ 3,561**	**$ 5,195,151**	**$ —**	**$ (488,328)**	**$ 42,991**	**$ 4,753,375**

See accompanying Notes to Consolidated Financial Statements

6

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

	September 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Real estate investments:		
Real estate assets	**$ 6,091,861**	$ 5,144,805
Construction in progress	**441,005**	303,644
Investments in and advances to unconsolidated companies	**135,089**	197,807
Undeveloped land	**167,928**	237,436
	6,835,883	5,883,692
Accumulated depreciation	**(1,159,493)**	(1,042,944)
Net real estate investments	**5,676,390**	4,840,748
Real estate investments and other assets held-for-sale	**63,604**	1,324,258
Cash and cash equivalents	**27,315**	12,639
Accounts receivable, net of allowance of $1,020 and $1,391	**20,605**	15,838
Straight-line rent receivable, net of allowance of $3,655 and $5,268	**91,045**	82,554
Receivables on construction contracts, including retentions	**10,343**	6,159
Deferred leasing and other costs, net of accumulated amortization of $206,242 and $186,798	**279,891**	258,741
Restricted cash held in escrow for like-kind exchange	**512,520**	40,102
Notes receivable from property sales	**426,678**	25,460
Other escrow deposits and other assets	**189,080**	165,503
	$ 7,297,471	$ 6,772,002
LIABILITIES AND EQUITY		
Indebtedness:		
Secured debt, net of deferred financing costs of $699 and $969	**$ 312,776**	$ 383,725
Unsecured debt, net of deferred financing costs of $18,583 and $22,083	**1,814,104**	2,476,752
Unsecured line of credit	**5,000**	48,000
	2,131,880	2,908,477
Liabilities related to real estate investments held-for-sale	**2,653**	56,291
Construction payables and amounts due subcontractors, including retentions	**70,432**	44,250
Accrued real estate taxes	**83,152**	59,112
Accrued interest	**24,547**	23,633
Other liabilities	**195,147**	153,846
Tenant security deposits and prepaid rents	**36,285**	33,100
Total liabilities	**2,544,096**	3,278,709
Partners' equity:		
Common equity (356,130 and 354,756 General Partner Units issued and outstanding, respectively)	**4,710,384**	3,465,136
Limited Partners' common equity (3,288 and 3,408 Limited Partner Units issued and outstanding, respectively)	**41,994**	24,691
Accumulated other comprehensive income	**—**	682
Total partners' equity	**4,752,378**	3,490,509
Noncontrolling interests	**997**	2,784
Total equity	**4,753,375**	3,493,293

	$ 7,297,471	$ 6,772,002

See accompanying Notes to Consolidated Financial Statements

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

	Three Months Ended		Nine Months Ended	
	2017	2016	**2017**	2016
Revenues:				
Rental and related revenue	**$169,611**	$162,322	**$507,123**	$480,819
General contractor and service fee revenue	**25,217**	19,351	**58,192**	68,546
	194,828	181,673	**565,315**	549,365
Expenses:				
Rental expenses	**16,224**	16,933	**46,967**	54,685
Real estate taxes	**28,157**	26,001	**81,569**	75,687
General contractor and other services expenses	**24,079**	17,182	**54,077**	60,330
Depreciation and amortization	**67,992**	61,820	**197,028**	182,489
	136,452	121,936	**379,641**	373,191
Other operating activities:				
Equity in earnings of unconsolidated companies	**1,841**	12,010	**58,523**	37,404
Gain on dissolution of unconsolidated company	**—**	—	**—**	30,697
Promote income	**—**	2,212	**20,007**	26,299
Gain on sale of properties	**21,952**	82,698	**93,339**	137,589
Gain on land sales	**5,665**	1,601	**8,449**	2,438
Other operating expenses	**(770)**	(1,424)	**(2,226)**	(3,496)
Impairment charges	**(3,622)**	(3,042)	**(4,481)**	(15,098)
General and administrative expenses	**(10,075)**	(12,534)	**(41,165)**	(42,216)
	14,991	81,521	**132,446**	173,617
Operating income	**73,367**	141,258	**318,120**	349,791
Other income (expenses):				
Interest and other income, net	**6,404**	507	**9,197**	3,597
Interest expense	**(20,835)**	(27,283)	**(65,401)**	(87,255)
Loss on debt extinguishment	**(16,568)**	(6,243)	**(26,104)**	(8,673)
Acquisition-related activity	**—**	(7)	**—**	(82)
Income from continuing operations before income taxes	**42,368**	108,232	**235,812**	257,378
Income tax (expense) benefit	**(359)**	359	**(7,918)**	173
Income from continuing operations	**42,009**	108,591	**227,894**	257,551
Discontinued operations:				
Income before gain on sales	**2,563**	4,249	**17,747**	9,062
Gain on sale of depreciable properties	**120,179**	319	**1,229,270**	485
Income tax (expense) benefit	**876**	—	**(10,736)**	—
Income from discontinued operations	**123,618**	4,568	**1,236,281**	9,547
Net income	**165,627**	113,159	**1,464,175**	267,098
Net loss (income) attributable to noncontrolling interests	**1,177**	(14)	**(4,736)**	(40)
Net income attributable to common unitholders	**$166,804**	$113,145	**$1,459,439**	$267,058
Basic net income per Common Unit:				
Continuing operations attributable to common unitholders	**$0.12**	$0.31	**$0.63**	$0.72
Discontinued operations attributable to common unitholders	**0.34**	0.01	**3.43**	0.03
Total	**$0.46**	$0.32	**$4.06**	$0.75
Diluted net income per Common Unit:				
Continuing operations attributable to common unitholders	**$0.12**	$0.31	**$0.63**	$0.72

Discontinued operations attributable to common unitholders	**0.34**	0.01	**3.40**	0.03
Total	**$0.46**	$0.32	**$4.03**	$0.75
Weighted average number of Common Units outstanding	**359,206**	355,351	**358,921**	351,840
Weighted average number of Common Units and potential dilutive securities	**362,102**	358,981	**361,947**	355,405
Comprehensive income:				
Net income	**$165,627**	$113,159	**$1,464,175**	$267,098
Other comprehensive loss:				
Amortization of interest contracts	**—**	(255)	**(682)**	(845)
Other	**—**	(23)	**—**	(23)
Total other comprehensive loss	**—**	(278)	**(682)**	(868)
Comprehensive income	**$165,627**	$112,881	**$1,463,493**	$266,230

See accompanying Notes to Consolidated Financial Statements

8

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

	2017	2016
Cash flows from operating activities:		
Net income	**$1,464,175**	$267,098
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of buildings and tenant improvements	**179,918**	191,554
Amortization of deferred leasing and other costs	**42,996**	47,093
Amortization of deferred financing costs	**4,049**	3,998
Straight-line rental income and expense, net	**(12,021)**	(10,832)
Impairment charges	**4,481**	15,098
Loss on debt extinguishment	**26,104**	8,673
Gain on dissolution of unconsolidated company	**—**	(30,697)
Gains on land and depreciated property sales	**(1,331,058)**	(140,512)
Third-party construction contracts, net	**2,679**	5,601
Other accrued revenues and expenses, net	**24,474**	21,832
Equity in earnings in excess of operating distributions received from unconsolidated companies	**(45,298)**	(24,476)
Net cash provided by operating activities	**360,499**	354,430
Cash flows from investing activities:		
Development of real estate investments	**(421,702)**	(308,199)
Acquisition of real estate investments and related intangible assets	**(620,869)**	(16,029)
Acquisition of undeveloped land	**(127,662)**	(77,593)
Second generation tenant improvements, leasing costs and building improvements	**(34,350)**	(39,169)
Other deferred leasing costs	**(22,399)**	(25,949)
Other assets	**(492,982)**	164,450
Proceeds from land and depreciated property sales, net	**2,282,419**	369,118
Capital distributions from unconsolidated companies	**111,635**	52,514
Capital contributions and advances to unconsolidated companies	**(6,303)**	(54,853)
Net cash provided by investing activities	**667,787**	64,290
Cash flows from financing activities:		
Contributions from the General Partner	**7,309**	217,513
Proceeds from unsecured debt	**—**	375,000
Payments on unsecured debt	**(691,492)**	(285,339)
Payments on secured indebtedness including principal amortization	**(71,154)**	(352,723)
Repayments of line of credit, net	**(43,000)**	(71,000)
Distributions to common unitholders	**(204,654)**	(189,764)
Distributions to noncontrolling interests	**(6,523)**	(76)
Tax payments on stock-based compensation awards	**(14,868)**	(7,059)
Change in book overdrafts	**11,245**	(11,025)
Deferred financing costs	**(16)**	(6,569)
Redemption of Limited Partner Units	**(457)**	—
Net cash used for financing activities	**(1,013,610)**	(331,042)
Net increase in cash and cash equivalents	**14,676**	87,678
Cash and cash equivalents at beginning of period	**12,639**	22,533
Cash and cash equivalents at end of period	**$27,315**	$110,211

Non-cash investing and financing activities:

Notes receivable from buyers in property sales	**$404,846**	$1,685
Conversion of Limited Partner Units to common shares of the General Partner	**$1,714**	$1,015

See accompanying Notes to Consolidated Financial Statements

DUKE REALTY LIMITED PARTNERSHIP AND SUBSIDIARIES
Consolidated Statement of Changes in Equity
For the nine months ended September 30, 2017
(in thousands, except per unit data)
(Unaudited)

	Common Unitholders					
	General Partner's Common Equity	Limited Partners' Common Equity	Accumulated Other Comprehensive Income	Total Partners' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2016	**$3,465,136**	**$24,691**	**$ 682**	**$3,490,509**	**$ 2,784**	**$3,493,293**
Net income	1,446,012	13,427	—	1,459,439	4,736	1,464,175
Other comprehensive loss	—	—	(682)	(682)	—	(682)
Capital contribution from the General Partner	7,309	—	—	7,309	—	7,309
Stock-based compensation plan activity	(6,648)	7,562	—	914	—	914
Conversion/redemption of Limited Partner Units	1,345	(1,802)	—	(457)	—	(457)
Distributions to Partners ($0.57 per Common Unit)	(202,770)	(1,884)	—	(204,654)	—	(204,654)
Distributions to noncontrolling interests	—	—	—	—	(6,523)	(6,523)
Balance at September 30, 2017	**$4,710,384**	**$41,994**	**$ —**	**$4,752,378**	**$ 997**	**$4,753,375**

See accompanying Notes to Consolidated Financial Statements

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

1. General Basis of Presentation

The interim consolidated financial statements included herein have been prepared by the General Partner and the Partnership. The 2016 year-end consolidated balance sheet data included in this Report was derived from the audited financial statements in the combined Annual Report on Form 10-K of the General Partner and the Partnership for the year ended December 31, 2016 (the "2016 Annual Report"), but does not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP"). The financial statements have been prepared in accordance with GAAP for interim financial information and in accordance with Rule 10-01 of Regulation S-X of the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenue and expenses during the reporting period. Our actual results could differ from those estimates and assumptions. These financial statements should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included herein and the consolidated financial statements and notes thereto included in the 2016 Annual Report.

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

The General Partner is the sole general partner of the Partnership, owning approximately 99.1% of the Common Units at September 30, 2017. The remaining 0.9% of the Common Units are owned by Limited Partners. As the sole general partner of the Partnership, the General Partner has full, exclusive and complete responsibility and discretion in the day-to-day management and control of the Partnership. The General Partner and the Partnership are operated as one enterprise. The management of the General Partner consists of the same members as the management of the Partnership. As the sole general partner with control of the Partnership, the General Partner consolidates the Partnership for financial reporting purposes, and the General Partner does not have any significant assets other than its investment in the Partnership. Therefore, the assets and liabilities of the General Partner and the Partnership are substantially the same.

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

During the nine months ended September 30, 2017, we substantially completed the disposition of our medical office portfolio (the "Medical Office Portfolio Disposition", see Note 5) and exited from the medical office product segment. As of September 30, 2017, we owned and operated a portfolio primarily consisting of industrial properties and provided real estate services to third-party owners. Substantially all of our Rental Operations (see Note 9) are conducted through the Partnership. We conduct our Service Operations (see Note 9) 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

11

owned through a taxable REIT subsidiary. The consolidated financial statements include our accounts and the accounts of our majority-owned or controlled subsidiaries.

2. New Accounting Pronouncements

Business Combinations

In January 2017, the FASB issued ASU 2017-01, *Business Combinations: Clarifying the Definition of a Business* ("ASU 2017-01"). ASU 2017-01 provides revised guidance to determine when an acquisition meets the definition of a business or should be accounted for as an asset acquisition, likely resulting in more acquisitions being accounted for as asset acquisitions as opposed to business combinations. Transaction costs are capitalized for asset acquisitions while they are expensed as incurred for business combinations. ASU 2017-01 requires that when substantially all of the fair value of an acquisition is concentrated in a single identifiable asset or a group of similar identifiable assets it does not meet the definition of a business. ASU 2017-01 also revises the definition of a business to include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create an output. ASU 2017-01 will be effective, on a prospective basis, for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted. We adopted ASU 2017-01 prospectively as of January 1, 2017 as permitted under the standard, which has not had a material impact to the consolidated financial statements.

Restricted Cash

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash* ("ASU 2016-18"). ASU 2016-18 requires entities to show the changes in the total of cash and restricted cash in the statement of cash flows. As a result, entities will no longer present transfers between cash and restricted cash in the statement of cash flows. ASU 2016-18 will be effective for us retrospectively for annual and interim reporting periods beginning after December 15, 2017 with early adoption permitted. We do not believe ASU 2016-18 will have a material impact on our consolidated financial statements.

Statement of Cash Flows

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flow*s ("ASU 2016-15"). ASU 2016-15 clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows and how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. ASU 2016-15 will be effective for us retrospectively for annual and interim reporting periods beginning after December 15, 2017 with early adoption permitted. We do not believe ASU 2016-15 will have a material impact on our consolidated financial statements.

Stock Compensation

In March 2016, the FASB issued ASU 2016-09, *Stock Compensation: Improvements to Employee Share-Based Payment Accounting (*"ASU 2016-09"*),* which simplifies certain aspects of accounting for share-based payment transactions, including income tax consequences, forfeitures and the classification of amounts paid to taxing authorities when shares are withheld to cover employee tax withholdings for certain stock based compensation plans in the statements of cash flows. ASU 2016-09 was effective for us as of January 1, 2017 and did not have a material impact on our consolidated financial statements.

Leases

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

ASU 2016-02 requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASU 2016-02 also requires that lessors expense certain initial direct costs, which are capitalizable under existing leasing standards, as incurred.

ASU 2016-02 also specifies that payments for certain lease-related services, which are often included in lease agreements, represent "non-lease" components that will become subject to the guidance in ASU 2014-09, *Revenue from Contracts with Customers,* when ASU 2016-02 becomes effective. The FASB recently clarified that only new or modified leases subsequent to adoption of ASU 2016-02 will require different accounting for "non-lease" components under the guidance in ASU 2014-09. We are currently evaluating the presentation and disclosure impacts of this accounting change.

ASU 2016-02 requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. ASU 2016-02 will impact the accounting and disclosure requirements for the ground leases, and other operating leases, where we are the lessee.

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

Revenue Recognition
In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). ASU 2014-09 is a comprehensive revenue recognition standard that will supersede nearly all existing GAAP revenue recognition guidance as well as impact the existing GAAP guidance governing the sale of non-financial assets. The standard’s core principle is that a company will recognize revenue when it satisfies performance obligations, by transferring promised goods or services to customers, in an amount that reflects the consideration to which the company expects to be entitled in exchange for fulfilling those performance obligations. In doing so, companies will need to exercise more judgment and make more estimates than under existing GAAP guidance.
ASU 2014-09 also created guidance governing the sale of non-financial assets with customers and non-customers with the only difference in the treatment of these transactions being presentation in the statement of operations (revenue and expense is reported when the sale is to a customer and net gain or loss is reported when the sale is to a non-customer). Based on the nature of our business, we have concluded that our property sales represent transactions with non-customers.
In February 2017, the FASB issued ASU 2017-05, *Other Income: Gains and Losses from the Derecognition of Non-financial Assets* (“ASU 2017-05”). ASU 2017-05 provides guidance on how entities recognize sales, including partial sales, of non-financial assets (and in-substance non-financial assets) to non-customers. ASU 2017-05 requires the seller to recognize a full gain or loss in a partial sale of non-financial assets, to the extent control is not retained. Any noncontrolling interest retained by the seller would, accordingly, be measured at fair value.
Both ASU 2014-09 and ASU 2017-05 will be effective for public entities for annual and interim reporting periods beginning after December 15, 2017 and early adoption is permitted in periods ending after December 15, 2016. ASU 2014-09 and ASU 2017-05 allow for either full or modified retrospective ("cumulative effect") adoption. Both standards must be adopted concurrently. We have concluded that we will adopt both ASU 2014-09 and ASU 2017-05 using the cumulative effect method.

We have evaluated each of our revenue streams under ASU 2014-09 and determined that our revenues that will be impacted by this standard primarily include construction and development fees charged to third parties, fees for

13

services performed for unconsolidated joint ventures and sales of real estate. We expect that the amount and timing of revenue recognition from these revenue streams referenced above will be generally consistent with our current measurement and pattern of recognition. In addition, the pattern of recognition for sales of real estate is not expected to change significantly. We have primarily disposed of property and land in all cash transactions with no contingencies and no future involvement in the operations, and therefore, do not expect ASU 2017-05 to significantly impact the recognition of property and land sales.

3. Reclassifications

Certain amounts in the accompanying consolidated financial statements for 2016, including the change in presentation for the medical office properties determined to be discontinued operations (see Note 10) and the tax payments on stock-based compensation awards pursuant to ASU 2016-09, have been reclassified to conform to the 2017 consolidated financial statement presentation.

4. Variable Interest Entities

Partnership

Due to the fact that the Limited Partners do not have kick out rights, or substantive participating rights, the Partnership is a variable interest entity ("VIE"). Because the General Partner holds majority ownership and exercises control over every aspect of the Partnership's operations, the General Partner has been determined as the primary beneficiary and, therefore, consolidates the Partnership.

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

Unconsolidated Joint Ventures

We have equity interests in unconsolidated joint ventures that primarily own and operate rental properties or hold land for development. We consolidate those joint ventures that are considered to be VIEs where we are the primary beneficiary. We analyze our investments in joint ventures to determine if the joint venture is considered a VIE and would require consolidation. We (i) evaluate the sufficiency of the total equity investment at risk, (ii) review the voting rights and decision-making authority of the equity investment holders as a group and whether there are limited partners (or similar owning entities) that lack substantive participating or kick out rights and (iii) establish whether or not activities within the venture are on behalf of an investor with disproportionately few voting rights in making this VIE determination.

To the extent that we own interests in a VIE and we (i) are the sole entity that has the power to direct the activities of the VIE and (ii) have the obligation or rights to absorb the VIE's losses or receive its benefits, then we would be determined to be the primary beneficiary and would consolidate the VIE. To the extent we own interests in a VIE, then at each reporting period, we re-assess our conclusions as to which, if any, party within the VIE is considered the primary beneficiary. Consolidated joint ventures that are VIEs are not significant in any period presented in these consolidated financial statements.

To the extent that our joint ventures do not qualify as VIEs, they are consolidated if we control them through majority ownership interests or if we are the managing entity (general partner or managing member) and our partner does not have substantive participating rights. Control is further demonstrated by our ability to unilaterally make significant operating decisions, refinance debt and sell the assets of the joint venture without the consent of the non-managing entity and the inability of the non-managing entity to remove us from our role as the managing entity. Consolidated joint ventures that are not VIEs are not significant in any period presented in these consolidated financial statements.

There were no unconsolidated joint ventures, in which we have any recognized assets or liabilities or have retained any economic exposure to loss at September 30, 2017, that met the criteria to be considered VIEs. Our maximum loss exposure for guarantees of unconsolidated joint venture indebtedness, none of which relate to VIEs, totaled $77.6 million at September 30, 2017.

5. Acquisitions and Dispositions

Acquisitions and dispositions for the periods presented were completed in accordance with our strategy to reposition our investment concentration among the product types and markets in which we operate and to increase our overall investments in quality industrial projects. With the exception of certain properties that have been sold or classified as held for sale, the results of operations for all acquired properties have been included in continuing operations within our consolidated financial statements since their respective dates of acquisition. Transaction costs related to asset acquisitions are capitalized and transaction costs related to business combinations and dispositions are expensed.

Acquisitions

We acquired 20 properties during the nine months ended September 30, 2017. We determined that these 20 properties did not meet the revised definition of a business as the result of adopting ASU 2017-01 and, accordingly, we accounted for them as asset acquisitions as opposed to business combinations.

The following table summarizes amounts recognized for each major class of assets (in thousands) for these acquisitions during the nine months ended September 30, 2017:

Real estate assets	$595,127
Lease related intangible assets	32,079
Total acquired assets	627,206
Below market lease liability	1,224
Fair value of acquired net assets	$625,982

The leases in the acquired properties had a weighted average remaining life at acquisition of approximately 7.7 years.

Fair Value Measurements

We determine the fair value of the individual components of real estate asset acquisitions primarily through calculating the "as-if vacant" value of a building, using an income approach, which relies significantly upon internally determined assumptions. We have determined that these estimates primarily rely upon level 3 inputs, which are unobservable inputs based on our own assumptions. The most significant assumptions used in calculating the "as-if vacant" value for acquisition activity during the nine months ended September 30, 2017 are as follows:

	Low	**High**
Exit capitalization rate	**4.10%**	**5.32%**
Net rental rate per square foot	**$3.50**	**$10.00**

An acquisition during the three months ended September 30, 2017 is located in a high performing industrial market in Northern New Jersey which is at the high end of our range of assumptions for net rental rate per square foot. Capitalized acquisition costs were insignificant and the fair value of the 20 properties acquired during the nine months ended September 30, 2017 was substantially the same as the cost of acquisition.

Dispositions

Dispositions of buildings (see Note 10 for the number of buildings sold as well as for their classification between continuing and discontinued operations) and undeveloped land generated net cash proceeds of $2.28 billion and $369.1 million during the nine months ended September 30, 2017 and 2016, respectively.

Dispositions for the nine months ended September 30, 2017 included 84 consolidated properties sold as part of the Medical Office Portfolio Disposition to a subsidiary of Healthcare Trust of America, Inc. ("HTA"), as well as certain other buyers, for a total sales price of $2.60 billion and a gain on sale of $1.26 billion. Seven of these consolidated properties were sold during the three months ended September 30, 2017, for a total sales price of $250.0 million and a gain on sale of $120.4 million. The Medical Office Portfolio Disposition was executed in connection with our strategy to focus solely on the industrial real estate product type.

A portion of the sale price for the Medical Office Portfolio Disposition was financed through either unsecured notes, or first mortgage interests in a portion of the sold properties, that we provided to HTA and other buyers, totaling $400.0 million, which is reflected within notes receivable from property sales in the Consolidated Balance Sheets. These instruments mature at various points through January 2020 and all bear interest at 4.0%. We concluded that the value, and the rate of interest, for these financial instruments would approximate fair value as computed using an income approach and that this determination of fair value was primarily based upon level 3 inputs. We have reviewed the creditworthiness of the borrowers and have concluded it is probable that we will collect all amounts due according to their contractual terms.

In connection with the Medical Office Portfolio Disposition, during the nine months ended September 30, 2017 we received $105.3 million for the sale of our interest in two unconsolidated joint ventures whose underlying assets were comprised of medical office properties, which is reflected within Capital Distributions from Unconsolidated Companies within the Consolidated Statements of Cash Flows. We recorded $47.5 million of income related to the sale of our interests in these unconsolidated joint ventures within equity in earnings of unconsolidated companies in the Consolidated Statements of Operations and Comprehensive Income. In connection with the sale of our interest in one of these unconsolidated joint ventures, we also recorded promote income (additional incentive-based cash distributions from the joint venture, in excess of our ownership interest) of $20.0 million from the sale of our interest, which is reflected as a separate line item in the Consolidated Statements of Operations and Comprehensive Income and reflected within net cash provided by operating activities within the Consolidated Statements of Cash Flows. In connection with the sale, we recorded income tax expense totaling $19.1 million including $10.7 million classified within discontinued operations and $8.4 million classified within continuing operations in the Consolidated Statements of Operations and Comprehensive Income.

6. Indebtedness

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

	Book Value at 12/31/2016	Book Value at 9/30/2017	Fair Value at 12/31/2016	Payments/Payoffs	Adjustments to Fair Value	Fair Value at 9/30/2017
Fixed rate secured debt	$381,894	$310,975	$415,231	$ (70,854)	$ (12,352)	$332,025
Variable rate secured debt	2,800	2,500	2,800	(300)	—	2,500
Unsecured debt	2,498,835	1,832,687	2,568,034	(666,148)	7,339	1,909,225
Unsecured line of credit	48,000	5,000	48,000	(43,000)	—	5,000
Total	$2,931,529	$2,151,162	$3,034,065	$ (780,302)	$ (5,013)	$2,248,750
Less: Deferred financing costs	23,052	19,282				
Total indebtedness as reported on the consolidated balance sheets						