



2004 ANNUAL REPORT



See the Difference . . .

► corporate profile

DUKE REALTY CORPORATION is a publicly traded real estate company that specializes in the ownership, construction, development, leasing and management of office and industrial real estate. As such, it is the largest publicly-traded office and industrial company in the United States, owning interest in 110 million square feet of in-service properties, with an additional 4 million square feet under development, and more than 4,600 acres of developable land.

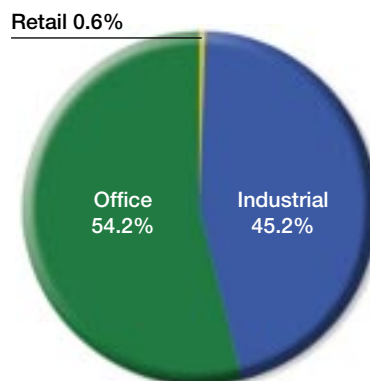
Duke provides a full range of services in-house, backs them with more than 30 years experience, and delivers valuable real estate solutions to satisfied customers across the nation.

Duke common stock is listed on the New York Stock Exchange under the symbol: DRE. Approximately 60 percent of its outstanding common stock is owned by institutions, and the balance by approximately 120,000 individual investors.

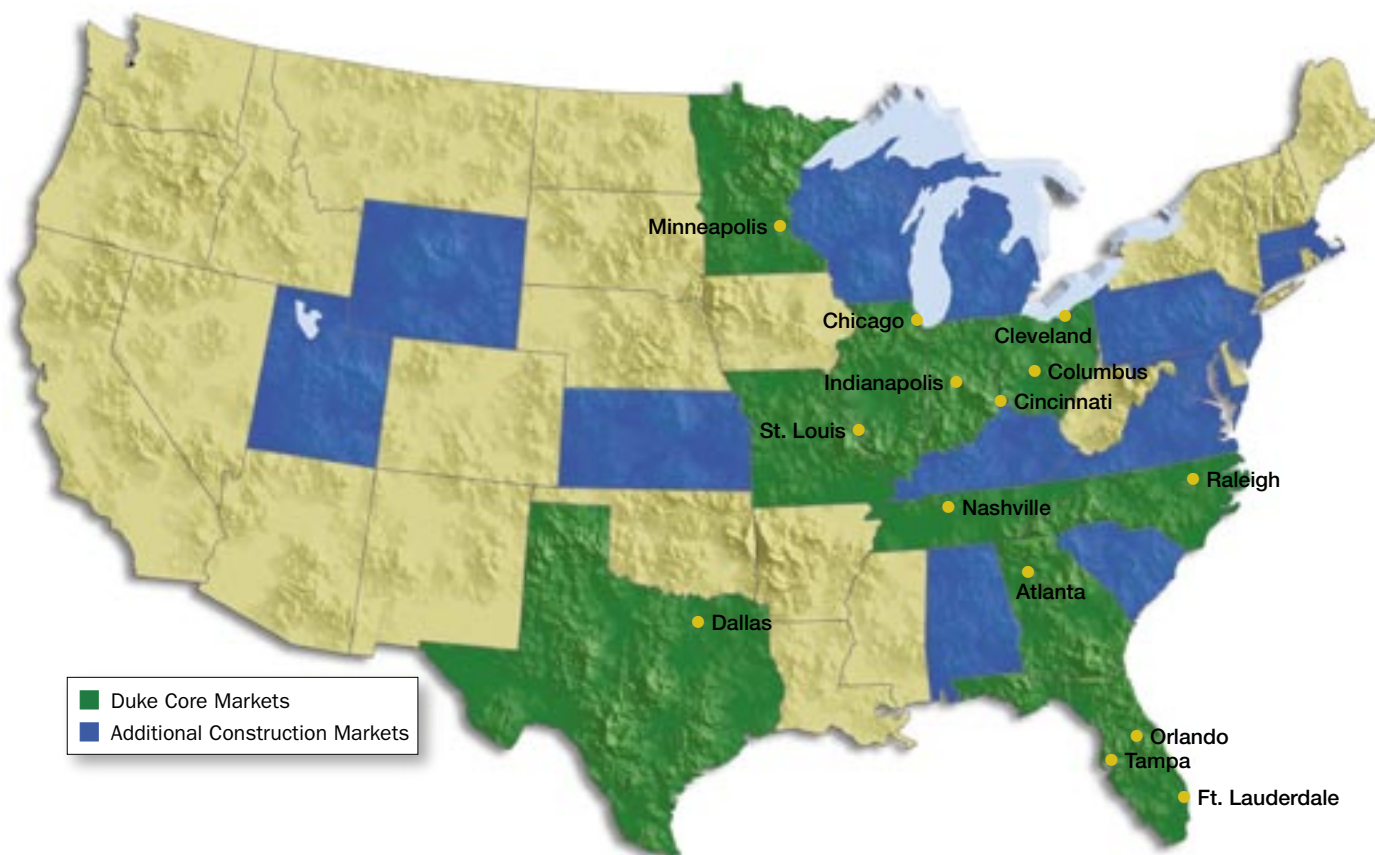
At 2004 year-end, the annual common stock dividend was \$1.86 per share, an amount that has been increased every year since the Company's 1993 public offering.

Net Effective Rent by Property Type

Dec. 31, 2004



Principal Market Locations



financial highlights

(in thousands, except per share amounts) 2004 2003 2002

Operations

Total revenues from continuing operations	\$ 836,454	\$ 772,487	\$ 748,587
Net income available for common shares	151,279	161,911	153,969
Funds from operations — diluted	387,258	382,237	370,774

Per share:

Diluted net income	\$ 1.06	\$ 1.19	\$ 1.14
Diluted FFO	2.47	2.45	2.36
Dividends paid	1.85	1.83	1.81
FFO Payout Ratio	75.1%	74.9%	76.9%

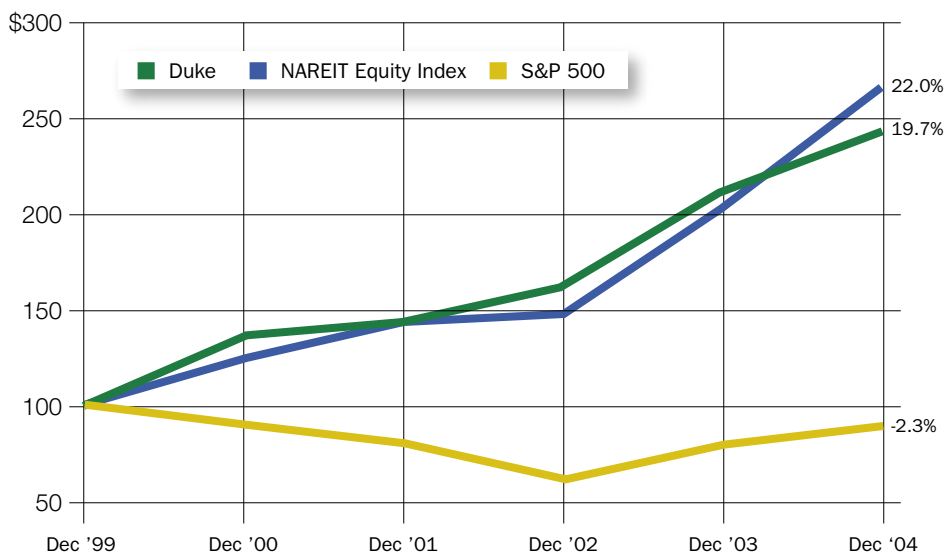
At year-end

Total assets	\$5,896,643	\$5,561,249	\$5,348,823
Total shareholders' equity	2,825,869	2,666,749	2,617,336

Senior Unsecured Debt Ratings

Standards & Poor's	BBB+	BBB+	BBB+
Moody's	Baa1	Baa1	Baa1
Fitch	BBB+	BBB+	BBB+

Return on Investment*



* Total annualized return

Fast Fact

Since Duke's public offering in 1993 at \$11.88 per share, its cumulative cash dividends totaled \$15.62 per share, or 31 percent more than the offering price.

A \$100 investment in the common stock of Duke Realty at its 1993 public offering price, has increased in value to nearly \$600, including reinvestment of all dividends paid.

About the Cover

We built this 689,000 square foot warehouse facility for Aurora Parts and Accessories on a 45-acre site in Lebanon, Indiana, in 2004.



A substantial development pipeline is now underway.

It should begin to impact operating growth as early as 2006.

During 2005 we plan to start more than \$400 million in new development, substantially greater than our \$249 million of 2004 starts.

Our expanded development pipeline will contribute to improved earnings growth.



Dennis D. Oklak
President and Chief
Executive Officer

WITH AN IMPROVING ECONOMY NOW AT HAND, we have laid the groundwork for Duke's next growth phase. In 2004 we increased occupancy. We increased the number of new developments and third-party construction starts. We also refinanced our debt and preferred stock at lower rates, and we maintained our balance sheet as one of the strongest in the real estate industry.

We accomplished much last year, including:

- \$249 million in new developments, a 131 percent increase from 2003;
- Began more than \$300 million of third-party construction projects with better profitability than in 2003;
- Stayed active on the acquisition front with significant new projects in suburban Atlanta and Cincinnati;
- Improved our balance sheet through debt and interest rate reductions;
- Created a formalized national development group which will enable us to leverage our expertise into new development and third-party construction opportunities in areas of the nation where we have little presence;
- Intensified a capital recycling program to sell aging properties and replace them with newer facilities;
 - Formed a joint venture relationship to take advantage of substantial opportunities presently available in the construction of healthcare buildings; and
 - Began a 1,700-acre, mixed-use project in suburban Indianapolis that includes residential, retail, office and industrial development.

Our Strategy

We are leveraging our vertically integrated operating platforms to help us outperform our competition in the markets we serve. Foremost among our goals is to drive our in-service occupancy higher. Led by strong leasing in our bulk warehouse portfolio, in-service occupancy increased 1.6 percent in 2004 to nearly 91 percent.

We seek further growth by focusing intensely on creating real estate value. For us, this usually begins with land acquisitions located along paths of identifiable growth that lead to future development opportunities. This approach has resulted in more than \$3.5 billion of profitable development completions since our 1993 public offering, achieving

average returns in excess of 11 percent. Equally important, because of our design-build construction capabilities, we managed the financial risk of more than 425 construction projects within a very acceptable range.

To accelerate our strategy, we are also utilizing our own internal capabilities. Unlike most REITs, we design and build projects for ourselves, tenants and third parties, establishing an enviable record of on-time and on-budget completion.

This reputation also enabled us to partner with a successful and experienced real estate developer, Bremner Healthcare, in the specialized healthcare development field. The volume of construction opportunities that we have already seen in this area is promising.

Directors

I once again want to thank Tom Hefner, who is stepping down as Chairman of the Board, for his many years of dedicated leadership at Duke.

I am also pleased to announce that Dr. Martin C. Jischke, President of Purdue University, and Dr. R. Glenn Hubbard, Dean of the Graduate School of Business at Columbia University, have been elected to our board. We have an outstanding group of independent directors with corporate, academic and real estate leadership experience.

Outlook

Leveraging our expertise and beginning new projects are already a reality. I expect these activities will accelerate as the economy rallies, which many experts indicate is already at hand.

We have grown our FFO per share even though the office and industrial real estate occupancies have suffered in the last three years. We anticipate growing our earnings modestly in 2005. We also plan to increase that growth rate in 2006 and beyond, as the economy continues to grow and the effect of our new initiatives begin to impact profitability.

To our shareholders, clients and Associates, thank you for your dedication, confidence and support.



Dennis D. Oklak
Indianapolis, March 16, 2005

■ The Duke Difference

Size

Duke is the largest publicly-owned mixed office and industrial company in the U.S. The Company owns interests in 114 million square feet of office, industrial and retail properties across 13 platforms. Duke also owns or controls more than 4,600 acres of land, which can support more than 69 million square feet of future development.

The Company's total assets amount to \$5.9 billion. The Company's total market value at year-end was \$8.5 billion.

Full-Service Operations

Duke is one of the most vertically-integrated real estate companies in the U.S. The Company buys and sells properties, acquires land, maintains a full leasing staff, and constructs buildings for itself as well as for third parties. This capability is rare among real estate investment trusts.

Clients

Duke does business with more than 75 of the top Fortune 100 companies and more than 4,200 tenants.

Solid Dividend

Duke's current annual dividend is \$1.86 per share, an increase of 107 percent since its 1993 public offering. The dividend has increased for 11 consecutive years. Only three percent of the nation's dividend paying companies have increased their dividends for at least 10 consecutive years, according to Mergent's.

Development ▶

Parkwood Eight is a five-story, 205,000 square foot suburban office building located in our Parkwood Crossing business park on the north side of Indianapolis, Indiana. Construction began in March of 2002 with 18 percent pre-leasing. The building was completed in May 2003 and is now 89 percent leased. We recently commenced construction on Parkwood Nine, which is 22 percent pre-leased.

Progress '04

Summary Financial Comparisons—2004 vs. 2003

REVENUE from continuing operations increased 8.3 percent in 2004 to \$836 million compared with \$772 million in 2003. Approximately 88 percent of the Company's revenue was derived from its in-service industrial and office properties. Net effective rents negotiated upon renewal increased by an average of 1.4 percent. Tenant occupancy in our in-service buildings increased to 90.9 percent from 89.3 percent the previous year.

Diluted net income per common share for 2004 was \$1.06 compared with \$1.19 in 2003. Diluted funds from operations were \$2.47 per common share compared with \$2.45 in 2003.





Total Revenue from Continuing Operations
(in millions)



Diluted Net Income Per Common Share



Diluted Funds from Operations (FFO) Per Common Share



Northwinds—Atlanta ►

This is one of six, 6-story Class A office buildings we acquired in 2004 at the Northwinds Office Park in suburban Atlanta. Encompassing 889,000 square feet, these buildings, which are approximately six years old, were 87.9% leased at December 31, 2004.

OUR balance sheet and borrowing cost remained among the best in the real estate industry in 2004. Debt as a percentage of total market capitalization at year-end 2004 declined to 29.5 percent compared with 30.8 percent a year earlier. The average interest rate on borrowed funds remained at 5.7 percent at year-end 2004.

The Company redeemed its \$100 million 8.25% Series E Preferred Stock at par in January, 2004. In March, we redeemed \$2.6 million of our outstanding 7.375% Series D Cumulative Redeemable Preferred Shares, after converting \$131 million to common stock following the Company's call for redemption of these shares. In February, 2004, the Company issued \$150 million, 6.50% Series K Preferred Stock and \$200 million, 6.60% Series L Preferred Stock in November. As a result of these redemptions and issuances, average dividends on all outstanding preferred stock declined from 7.7 percent at the end of 2003 to 7.1 percent at the end of 2004.

Total assets at 2004 year-end were \$5.9 billion compared with \$5.6 billion for the previous year-end. Shareholders' equity amounted to \$2.8 billion compared with \$2.7 billion twelve months earlier. Interest and fixed-charge ratios were 4.1 and 3.0 for 2004.



At 2004 year-end, Duke had a \$500 million line of credit through a consortium of banks. The Company was not utilizing the facility at year-end.

Common Stock Dividends

Dividends paid to common stockholders were \$1.85 per share in 2004 compared with \$1.83 in 2003. The 2004 payout amounted to 75.1 percent of funds from operations per share compared with 74.9 percent for 2003. The annual dividend paid in 2004 marked the 11th consecutive year in which the dividend was increased from the previous year and now stands at \$1.86 per share.

It should be noted that only three percent of U.S. companies that pay dividends have at least 10 consecutive years of dividend increases. Since its public offering in 1993, Duke has paid dividends totaling \$15.62 per share, 31 percent greater than its 1993 offering price of \$11.88 per share. When including its subsequent market price appreciation and the effect of dividend reinvestment, one share of stock purchased at the 1993 offering price was worth more than \$70.00 at December 31, 2004.

In addition, based on the Company's closing common stock price of \$34.14 per share at 2004 year-end, the dividend yield amounted to 5.4 percent, more than three times the average yield of the stocks comprising the S&P 500.

Property Status

At December 31, 2004, Duke owned or had interests in 876 in-service properties comprising nearly 110 million square feet of industrial, office, and retail properties located primarily in the suburbs of 14 major U.S. cities. This assemblage makes Duke one of the largest real estate companies in the U.S.

In-service properties were 90.9 percent occupied at 2004 year-end. In addition, the Company also owned or controlled more than 4,600 acres of undeveloped land, which can support more than 69 million square feet of development. This land, when fully developed, could increase the Company's present portfolio by as much as 61 percent.



Bridgebuilders ▲

As a builder, we hold a unique position among all REITs. Shown above is a bridge we built in the Atlanta area to gain entrance to our 400-acre Camp Creek Business Center that we are developing near the Hartsfield-Jackson International Airport. When completed, this development will include five million square feet of distribution space. The business park will also include green space and walking trails.

Property Dispositions

During 2004, as part of our corporate strategy to replace aging properties with newer ones, we disposed of \$147 million of held for rental properties. These properties comprised 2.8 million square feet with an average age of 18 years. In addition, we sold \$75 million of newly developed build-to-suit and retail properties.

Property Acquisitions

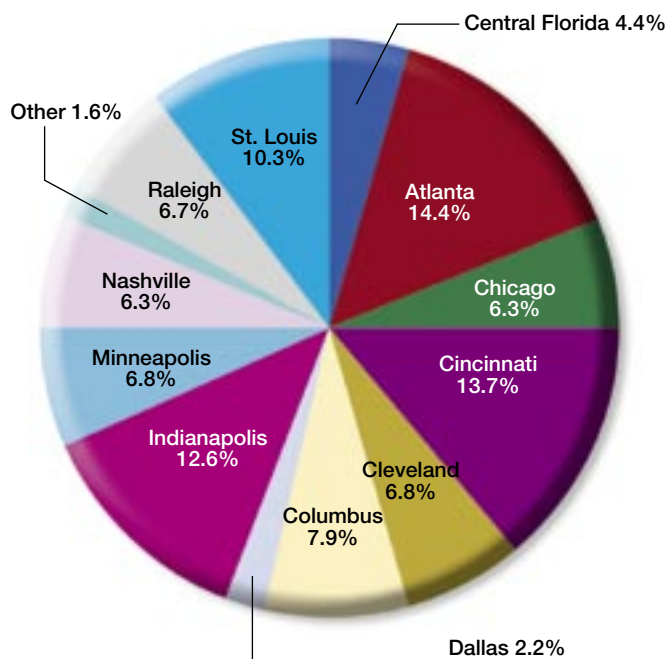
We invested \$264 million in acquisitions of 19 existing properties, having an average age of seven years exclusive of property purchased for redevelopment. In the aggregate, their occupancy rate was 80 percent and will provide a stabilized return of 9.4 percent. The acquired properties comprised 2.6 million square feet, plus 56 acres of undeveloped land.

Value Creation Pipeline

Our value creation pipeline is composed of three components: developments we intend to hold after completion; developments we intend to sell within one year after completion; and third-party projects. At 2004 year-end,

Net Effective Rent by Market

Dec. 31, 2004



this pipeline totaled \$405 million. Of that amount, \$156 million was committed for properties we intend to own indefinitely upon completion. These contain 3.2 million square feet, were 47 percent pre-leased, and are expected to generate a stabilized return of 10.2 percent. We have committed an additional \$66 million in seven new projects that we intend to sell within one year of their completion. They encompass 1.3 million square feet, are 99 percent leased, and are expected to provide a stabilized yield of 8.6 percent. Finally, we have a \$183 million backlog of third-party construction volume with an overall fee of 9.3 percent.

The following is a summary of the Company's major activities in 2004 by markets, the vast majority of which are in suburbs adjacent to the cities mentioned.

- **ATLANTA**

We acquired \$160 million of primarily Class A office buildings of nearly 1.1 million square feet in suburban Atlanta. These acquisitions included six, 6-story office buildings of 889,000 square feet, a 150,000 square foot office building, a two-story, 23,000 square foot retail property, and a stand-

Fast Facts

Construction Division

Duke Realty was listed as the nation's largest general contractor of warehouse and distribution facilities in 2004 by *Engineering News-Record*.

Land

Duke owns (or controls through options) more than 4,600 acres of vacant land that can support more than 69 million square feet of future development, or roughly 61 percent more than Duke's current portfolio. Owning land in combination with its in-house construction capability enables Duke to generate higher returns on its subsequent developments than is possible by only acquiring completed projects of others.

Property Age

The Company believes it has one of the most modern portfolios in the real estate industry with an average age of slightly over 10 years.

Market Size

Duke's property portfolios range from over 700,000 square feet in South Florida to over 23 million square feet in Indianapolis.

Industrial Development 2004

Right

(1) A 140,000 square-foot structure still under development at December 31, 2004 was leased entirely to Bank One in Dallas.

(2) A 400,000 square-foot industrial building was completed for Jack of All Games at our World Park industrial complex in suburban Cincinnati.

(3) A 608,000 distribution center was 100-percent pre-leased to the Clorox Company at Duke's Camp Creek Trade Center in suburban Atlanta.

Below, Left

Speculative construction began in August 2004 on a 667,000 square foot distribution center in suburban Columbus. It was 76 percent leased to the McGraw-Hill publishing company prior to its completion in early 2005.

alone restaurant. On average, the buildings were 88.8 percent leased at year-end and six years old with a projected average stabilized return of 9.1 percent. The purchases also included 9.4 acres of undeveloped land that can support up to 150,000 square feet of additional office space.

The Northwinds acquisition, combined with the 1.1 million square feet of nearby office buildings we already own, provides us with a dominant position in the North Fulton County submarket, which is considered to be a premier office location in suburban Atlanta.

At our Camp Creek Business Center we developed a 608,000 square foot industrial project that was 100 percent leased to the Clorox Company and began another 130,000

square foot project that is 100 percent pre-leased to R.R. Donnelley Company.

- CHICAGO

In the greater Chicago area, we own, manage or have under development approximately 8.6 million square feet of office and industrial properties. We also control approximately 200 acres of land for future development.

We acquired a 100 percent leased, 94,000 square foot suburban office building and a 283,000 square foot industrial facility that we will redevelop, as well as 28 acres of undeveloped land near Chicago's O'Hare International Airport. We also broke ground on a 528,000 square foot industrial project at our Park 55 business park. In our Meridian Business Campus in Aurora, we began a 44,000 square foot office building for Clear Channel Entertainment Motor Sports and began a 98,000 square foot expansion of an industrial building for Saks Fifth Avenue.

In addition, we are constructing a 200,000 square foot warehouse and light manufacturing facility for Victory Packaging at Meridian Business Campus. It will be completed in the third quarter of 2005.

We also began a 21,000 square foot retail project at Geneva Commons, which was 100 percent pre-leased. This property was sold in November 2004, as part of a larger 133,000 square foot project.

- CINCINNATI

We acquired three suburban office buildings totaling 363,000 square feet at Centre Pointe Office Park. Combined





with our already dominant positions in the Tri-County and the I-71 Blue Ash suburban Cincinnati markets, this latest acquisition increased our market share in the growing Butler County office submarket, which lies along I-75 in northern Cincinnati. In January 2005, we began construction of a 135,000 square foot office building on the 7.6 acres of additional land that was included in the acquisition.

In addition, we completed a 400,000 square foot industrial project for Jack of All Games at World Park in Union Centre.

- CLEVELAND

We completed a 100 percent pre-leased, 120,000 square foot industrial project for Stride Tool Inc. at our Emerald Valley Business Park. We also acquired a vacant 107,000 square foot suburban office building that is now 51 percent leased.

- COLUMBUS

We signed a 10-year, 506,000 square foot lease with McGraw-Hill in a 667,000 square foot speculative bulk distribution facility in our Groveport Industrial Park. We also began a 221,000 square foot suburban office project that is 85 percent pre-leased to BMW Financial Services as their North American headquarters.

- DALLAS

We purchased 57 acres of prime suburban office land in Frisco, Texas, approximately 25 miles north of downtown Dallas. This community is one of the fastest growing in the United States.

Frisco has experienced tremendous success in recent years, with more than four million square feet of space leased by national retailers, restaurants and shops within a two-mile radius of our new location.



Top & Below

Duke completed on time and within budget a 1.1 million square foot headquarters and distribution facility for The Container Store at the Freeport North Industrial Park in Coppell, Texas. Enough concrete was poured during this project to equal 160 miles of a five-foot wide sidewalk.



Office tenants are also being attracted to the area, absorbing one million square feet in 2003. The Frisco land acquisition will enable us to create value through new development in a strong growth community and simultaneously leverage our full-service Dallas team that already operates approximately eight million square feet of industrial properties.

At Frisco we intend to develop value-office buildings over the next few years. Construction on the first project should begin in 2005.

We also commenced building a 688,000 square foot industrial project in Dallas that was 100 percent pre-leased to Del Monte and a 31,000 square foot office project that was 100 percent pre-leased to State Farm Insurance Company.

- **CENTRAL FLORIDA**

In the Central Florida market we currently have 170 acres available that can support approximately 3.2 million of future development. In December 2004, we sold a 107,000 square foot suburban office facility leased to Edward Systems Technology that was recently completed in Bradenton.

- **SOUTH FLORIDA**

We began a 97,000 square foot suburban office project at our Beacon Pointe at Weston Business Park in Ft. Lauderdale. Growth prospects for us in South Florida are compelling. We presently own 775,000 square feet of office

assets and 13 acres of office land in two sub-markets in Broward County. We anticipate increasing development in this part of Florida during the next five years.

- INDIANAPOLIS

In 2004 we began a 425,000 square foot industrial project at Plainfield Business Park, near the Indianapolis International Airport, and began a 689,000 square foot industrial facility at our Lebanon Business Park, five miles northwest of Indianapolis. This latter project was 44 percent pre-leased to Aurora Parts and Accessories and is featured on the cover of this report.

We began a 205,000 square foot suburban office project at our Parkwood Crossing Business Park that is 22 percent pre-leased to American Family Insurance.

We entered into a third-party construction contract to build a 325,000 square foot corporate headquarters for Simon Property Group in downtown Indianapolis.

We also purchased 300 acres of undeveloped land and acquired options on 1,400 acres of adjacent land northwest of Indianapolis along Interstate 65, which links Indianapolis and Chicago. This acquisition marks the start of a 1,700 acre mixed-use project that will include office, industrial, retail, healthcare and residential development.

The new project named Anson solidifies our position along the I-65 corridor stretching more than three miles along I-65 with two interchanges. Five miles to the northwest along I-65 lies our Lebanon Business Park. Since 1995 we have developed nearly six million square feet of industrial property that is nearly 100 percent leased. Park 100 Business

Top

With its joint venture with Bremner Healthcare, Duke is now well positioned to leverage its construction and financing expertise in the fast-growing, medical office building market.

Below

Geneva Commons in Chicago is a 132,600 square foot specialty retail center that was developed and subsequently sold in November, 2004.



Pre-leasing Success

Right

Interior of a 156,000 square foot office and distribution center built for Harris Wholesale, Inc. in Raleigh, NC. This facility has the capacity to handle 3,500 truckloads of Anheuser-Busch product annually.

Below, Left

Once completed, this 140,000 square foot facility in Freeport North Business Park in Dallas will be used by Bank One for support operations for its Chase credit card line.

Park, which is similarly situated near I-65 five miles to the southeast, marks our earlier landmark development of a 1,600 acre site that is regarded as the premier industrial park in Indianapolis. It is located just 20 minutes from Indianapolis International Airport and contains 20 million square feet of primarily industrial properties.

The Anson parcel is the next logical growth area in the Indianapolis metro area. Its size will enable us to develop all of our core products—industrial, office, and retail—in a master-planned community that includes residential, healthcare, green space, parks, trails, schools and other civic uses. Initial development is scheduled to begin in mid-2005 and it has a potential project value of more than \$750 million.



- NASHVILLE

The Company began construction of a 47,000 square foot suburban office project in the Company's Aspen Corporate Center in July 2004 where it owns and manages more than 800,000 square feet of mixed-use properties. In addition to Aspen Corporate Center, the Nashville operations include another 4.6 million square feet and approximately 200 acres for future development.

- RALEIGH

We completed a 125,000 square foot industrial project at Walnut Creek Business Park that is 35 percent leased to Scholastic, Inc., the largest publisher and distributor of children's books in the U.S. The park encompasses 92 acres and will include nearly 1.3 million square feet of office, distribution and light manufacturing space.

- ST. LOUIS

We completed a 31,000 square foot office project that is 100 percent leased to State Farm Insurance Company at Lakeside Crossing. With the addition of GMAC and The Boeing Company as tenants totaling 221,000 square feet, Riverport Tower is now 93 percent occupied. In St. Louis, we own, manage or have under development 7.9 million square feet of office and industrial properties.

- MINNEAPOLIS

In the Company's Crosstown North Business Center, construction began on a 140,000 square foot speculative industrial project and a 27,000 square foot suburban office project that is 100 percent pre-leased. Also in our Crosstown North Business Park we completed the construction of a 120,000 square foot distribution facility for RR Donnelley in January 2004.



Third-Party Construction

One of Duke's major strengths is its ability to design and build offices, warehouses, distribution centers, retail and medical projects. This added capability provides Duke with two important benefits. It is generally able to construct buildings at a lower cost than what third-party builders would charge, thereby enabling Duke to achieve superior returns on its investments. It is also able to build projects for clients on a fee basis and often provide them with cost savings over competitive builders.

Third party construction starts for 2004 amounted to \$307 million compared with \$306 million in 2003. Forty-nine projects were started, encompassing a total of 3.9 million square feet. Among the largest was a 228,000 square foot distribution center in Westfield, MA for Lowe's, Inc. and a 405,000 square foot distribution center in Norton, MA for General Motors. In recent years, we have built approximately 11.5 million square feet of warehouse properties for Lowe's and GM.

These relationships illustrate the value of our in-house construction expertise, which has enabled us to generate substantial additional income for the Company and to construct buildings anywhere in the U.S. for clients.

Joint Venture—Healthcare Real Estate

In 2004, we leveraged our construction and development capabilities by expanding into the specialized niche market of medical office properties via a 50/50 joint venture with Bremner Healthcare. They are a leader in healthcare real estate development and a progressive provider of leasing, asset and property management for healthcare. They are experienced, having developed more than \$500 million in healthcare facilities and currently manage over three million square feet.

Bremner Healthcare will provide the business development, leasing and property management expertise, and we will provide the financing and construction services.

Together we began our initial project in November, 2004, with a 53 percent pre-leased, two-story, 39,000 square foot medical office building located on 3.7 acres in Carmel, a suburb north of Indianapolis.

Presently, healthcare demand represents 14 percent of gross domestic product. It is expected to reach 20 percent during the next 15 years as the “baby boomers” become senior citizens, thus making medical opportunities quite attractive.

In addition, hospitals are partnering with large physician groups, seeking to gain a greater share of their respective healthcare markets. Our target market is top tier hospital systems in major metropolitan areas nationwide. We are building outpatient facilities and medical office buildings in suburban areas where traffic is less congested and parking is readily available.

Outlook

Our time-tested business model remains unchanged—to create long-term value for shareholders through real estate development. For us, value creation consists of five parts: operating existing properties; development of new properties to hold indefinitely for rental income; development of properties to sell upon completion; constructing buildings for others; and engaging in land transactions—owning, developing and selling.

Vertical integration is a major aspect of our business model. Our full-service capabilities include development, leasing, property management and construction. This profile gives us all the in-house capabilities needed to deliver successful projects.

Our goals are to increase our FFO per share, increase our return on shareholder equity, maintain a strong balance sheet (keeping our debt to total capitalization below 40 percent) and maintain the number one or two market position in each of our core markets.

Initial 2005 estimates of funds from operations (FFO) range from \$2.43 to \$2.55 per share. As our occupancy continues to improve and present development projects reach fruition, we look forward to continued growth in 2005 and stronger growth in 2006. ◀

Fast Facts

Market Position

Duke endeavors to be the number one or two developer in a given market. By securing this market position, Duke can compete for substantially all sizable real estate deals in its markets and also enjoy certain economies of scale, barriers to entry for competitors and price leadership.

Speculative Developments

Duke completed 71 speculative development projects comprising 12.5 million square feet since the beginning of 2001. At an aggregate cost of \$674 million, those properties have an expected average stabilized return of 9.7 percent despite the difficult economic climate in the past four years. The results illustrate Duke's ability to create value and control risk through new real estate developments, even in a less-than-ideal economic environment.

National Development

We formed our National Development and Construction Group in 2004 to leverage key customer relationships with companies that have a national presence and pursue development and construction opportunities nationwide.

selected consolidated financial data

The following sets forth selected financial and operating information on a historical basis for each of the years in the five-year period ended December 31, 2004. The following information should be read in conjunction with “Management’s

Discussion and Analysis of Financial Condition and Results of Operations” and “Financial Statements and Supplementary Data” included in this Annual Report (in thousands, except per share amounts):

	2004	2003	2002	2001	2000
Results of Operations:					
Revenues:					
Rental Operations from continuing operations	\$ 765,651	\$ 713,031	\$ 680,007	\$ 682,096	\$ 677,591
Service Operations from continuing operations	70,803	59,456	68,580	80,459	82,799
Total Revenues from Continuing Operations	\$ 836,454	\$ 772,487	\$ 748,587	\$ 762,555	\$ 760,390
Income from Continuing Operations	\$ 163,201	\$ 181,186	\$ 200,947	\$ 270,133	\$ 254,506
Net Income Available for Common Shares	\$ 151,279	\$ 161,911	\$ 153,969	\$ 227,743	\$ 212,958

Per Share Data :

Basic income per common share:					
Continuing operations	\$.89	\$ 1.06	\$ 1.10	\$ 1.66	\$ 1.62
Discontinued operations	.18	.13	.05	.10	.06
Diluted income per common share:					
Continuing operations	.88	1.06	1.09	1.65	1.60
Discontinued operations	.18	.13	.05	.09	.06
Dividends paid per common share	1.85	1.83	1.81	1.76	1.64
Weighted average common shares outstanding	141,379	135,595	133,981	129,660	126,836
Weighted average common and dilutive potential common shares	157,062	151,141	150,839	151,710	147,441

Balance Sheet Data (at December 31):

Total Assets	\$5,896,643	\$5,561,249	\$5,348,823	\$5,330,033	\$5,460,036
Total Debt	2,518,704	2,335,536	2,106,285	1,814,856	1,973,215
Total Preferred Equity	657,250	540,508	440,889	608,664	608,874
Total Shareholders’ Equity	2,825,869	2,666,749	2,617,336	2,785,323	2,712,890
Total Common Shares Outstanding	142,894	136,594	135,007	131,416	127,932

Other Data:

Funds From Operations ⁽¹⁾	\$ 352,469	\$ 335,989	\$ 321,886	\$ 340,315	\$ 317,360
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¹ Funds From Operations (“FFO”) is used by industry analysts and investors as a supplemental operating performance measure of an equity real estate investment trust (“REIT”). FFO is calculated in accordance with the definition that was adopted by the Board of Governors of the National Association of Real Estate Investment Trusts (“NAREIT”). FFO, as defined by NAREIT, represents net income (loss) determined in accordance with accounting principles generally accepted in the United States (“GAAP”), excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated operating 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.

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 investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Thus, NAREIT created FFO as a supplemental measure of REIT operating performance that excludes historical cost depreciation, among other items, from GAAP net income. Management believes that the use of FFO, combined with the required primary GAAP presentations, improves the understanding of operating results of REITs among the investing public and makes comparisons of REIT operating results more meaningful. Management considers FFO to be a useful measure for reviewing comparative operating and financial performance (although FFO should be reviewed in conjunction with net income which remains the primary measure of performance) because by excluding gains or losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization, FFO assists in comparing the operating performance of a company’s real estate between periods or as compared to different companies.

See reconciliation of FFO to GAAP net income under Year in Review section of Management’s Discussion and Analysis of Financial Condition and Results of Operations.



management's discussion and analysis of financial condition and results of operations

Cautionary Statement Regarding Forward Looking Statements

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

- Changes in general economic and business conditions, including performance of financial markets;
- Our continued qualification as a real estate investment trust;
- Heightened competition for tenants and decrease in property occupancy;
- Potential increases in real estate construction costs;
- Potential changes in interest rates;
- Ability to favorably raise debt and equity in the capital markets;
- Inherent risks in the real estate business including tenant defaults, potential liability relating to environmental matters and liquidity of real estate investments; and
- Other risks and uncertainties described from time to time in the Company's filings with the SEC.

This list of risks and uncertainties, however, is not intended to be exhaustive. We have on file with the Securities and Exchange Commission ("SEC") a Current Report on Form 8-K dated July 24, 2003, with additional risk factor information.

The words "believe," "estimate," "expect," "anticipate" and similar expressions or statements regarding future periods are intended to identify forward-looking statements. Although we believe that the plans, expectations and results expressed in or suggested by our forward-looking statements are reasonable, all forward-looking statements are inherently uncertain 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.

Business Overview

We are a self-administered and self managed real estate investment trust that began operations through a related entity in 1972. As of December 31, 2004, we:

- Owned or jointly controlled 893 industrial, office and retail properties (including properties under development), consisting of over 114.2 million square feet primarily located in 10 states; and
- Owned or jointly controlled more than 4,600 acres of land with an estimated future development potential of more than 69 million square feet of industrial, office and retail properties.

We provide the following services for our properties and for certain properties owned by third parties:

- Property leasing;
- Property management;
- Construction;
- Development; and
- Other tenant-related services.

Management Philosophy and Priorities

Our key business and financial strategies for the future include the following:

- Our business objective is to increase Funds From Operations ("FFO") by (i) maintaining and increasing property occupancy and rental rates through the management of our portfolio of existing properties; (ii) expanding existing properties in our existing markets and by entering new markets; (iii) developing and acquiring new properties for rental operations in our existing markets; (iv) using our construction expertise to act as a general contractor in our existing markets and other domestic markets on a fee basis; (v) developing properties in our existing markets and other markets which we will sell through our merchant building development program and (vi) providing a full line of real estate services to our tenants and to third parties.

See the Year in Review section below for further explanation and definition of FFO.

- We intend to continue our capital recycling program whereby we pursue opportunities to dispose of investment properties and land held for development that no longer meet our long-term growth strategies. We intend to recycle the capital from these transactions to retire outstanding debt and invest in properties with better long-term return potential for us.
- Our financing strategy is to actively manage the components of our capital structure including common and preferred equity and debt to maintain a conservatively leveraged balance sheet and investment grade ratings from our credit rating



agencies. This strategy provides us with the financial flexibility to fund both development and acquisition opportunities. We seek to maintain a well-balanced, conservative and flexible capital structure by: (i) extending and sequencing the maturity dates of debt; (ii) borrowing primarily at fixed rates by targeting a variable rate component of total debt less than 20%; (iii) pursuing current and future long-term debt financings and refinancing on an unsecured basis; (iv) maintaining conservative debt service and fixed charge coverage ratios; and (v) issuing attractively priced perpetual preferred stock for 5-10% of our total capital structure.

Year in Review

Year 2004 presented a combination of economic and market challenges affecting the broader real estate industry as well as our Company. In the face of these challenges, we achieved steady operating results while maintaining a strong balance sheet.

Net income available for common shareholders for the year ended December 31, 2004 was \$151.3 million, or \$1.06 per share (diluted), compared to net income of \$161.9 million, or \$1.19 per share (diluted) for the year ended 2003. The decrease is primarily attributable to a significant increase in depreciation expense resulting from significant capital expenditures during 2003 and 2004 related to re-leasing existing space and the effects of the adoption of Statement of Financial Accounting Standards ("SFAS") No. 141, *Business Combinations* ("SFAS 141") in recording acquisitions, particularly the recognition of short-lived in-place lease intangible assets. See further discussion of this policy under the Critical Accounting Policies section of Management's Discussion and Analysis of Financial Condition and Results of Operations. Through increased leasing activity, we achieved a growth in rental revenues in 2004 over 2003 as our in-service portfolio year-end occupancy increased from 89.3% in 2003 to 90.9% at the end of 2004. We also experienced an increase in our development and construction of new properties for both owned investments and third party construction projects in 2004 as compared to 2003.

As an important performance metric for us as a real estate company, FFO available to common shareholders increased

to \$352.5 million for the year ended December 31, 2004 from \$336.0 million for the same period in 2003, or 4.9%.

FFO is used by industry analysts and investors as a supplemental operating performance measure of an equity real estate investment trust ("REIT"). FFO is calculated in accordance with the definition that was adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"). FFO, as defined by NAREIT, represents net income (loss) determined in accordance with accounting principles generally accepted in the United States of America ("GAAP"), excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated operating 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.

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 investors and analysts have considered presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Thus, NAREIT created FFO as a supplemental measure of REIT operating performance that excludes historical cost depreciation, among other items, from GAAP net income. Management believes that the use of FFO, combined with the required primary GAAP presentations, improves the understanding of operating results of REITs among the investing public and makes comparisons of REIT operating results more meaningful. Management considers FFO to be a useful measure for reviewing comparative operating and financial performance (although FFO should be reviewed in conjunction with net income which remains the primary measure of performance) because by excluding gains or losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization, FFO assists in comparing the operating performance of a company's real estate between periods or as compared to different companies.

The following table summarizes the calculation of FFO for the years ended December 31 (in thousands):

	2004	2003	2002
Net income available for common shares	\$151,279	\$161,911	\$153,969
Add back (deduct):			
Depreciation and amortization	228,582	196,234	175,621
Share of adjustments for unconsolidated companies	18,901	18,839	17,598
Earnings from depreciated property sales	(26,510)	(22,141)	(5,949)
Minority interest share of add-backs	(19,783)	(18,854)	(19,353)
Funds From Operations	\$352,469	\$335,989	\$321,886



management's discussion and analysis of financial condition and results of operations

Throughout 2004, we continued to maintain a conservative balance sheet and investment grade debt ratings from Moody's (Baa1), Standard & Poors (BBB+) and Fitch (BBB+). Our debt to total market capitalization ratio (total market capitalization is defined as the total market value of all outstanding common and preferred shares and units of limited partner interest in our operating partnership plus outstanding indebtedness) of 29.5% at December 31, 2004 compared to 30.8% at December 31, 2003 continues to provide us financial flexibility to fund new investments.

Highlights of our debt financing activity in 2004 are as follows:

- In January 2004, we issued \$125 million of unsecured notes with an effective interest rate of 3.35%, due 2008.
- In February 2004, we renewed our \$500 million unsecured credit facility and in the process reduced the stated interest rate by 5 basis points to LIBOR + 60 basis points and extended the maturity to 2007.
- In August 2004, we issued \$250 million of unsecured notes with an effective interest rate of 6.33%, due 2014. A portion of the proceeds was used to retire \$150 million of existing debt that had a blended effective interest rate of 7.31%.
- In December 2004, we issued \$250 million of floating rate unsecured debt at 26 basis points over LIBOR. The debt matures in 2006, but is callable at our option after six months.

We issued preferred stock during 2004 allowing us to redeem existing higher rate preferred stock and continue to utilize preferred stock as a key component of our capital structure. Highlights of preferred stock transactions in 2004 are as follows:

- In February 2004, we issued \$150 million of Series K preferred stock at a dividend rate of 6.5%. This issuance was in conjunction with the redemption of our \$100 million Series E preferred stock in January 2004, which had a dividend rate of 8.25%. Although the redemption resulted in certain non-cash charges that were dilutive to earnings in 2004, the lower dividend rate will reduce our future cost of capital.
- In March 2004, we called for the redemption of our Series D convertible preferred stock. Prior to the redemption, nearly all outstanding preferred D shares were converted into common shares. The Series D shares carried a dividend rate of 7.375%.
- In November 2004, we issued \$200 million of Series L preferred stock at a dividend rate of 6.6%.

In addition to steady operating performance and prudent balance sheet management during 2004, we continued to effectively execute our capital recycling program and

began several key initiatives and projects to leverage our development and construction capabilities as follows:

- We disposed of nearly \$150 million of older, non-strategic properties and used the proceeds to help fund over \$260 million of acquisitions. The acquisitions were predominantly suburban office properties totaling 1.8 million square feet with an expected return of 9.4%.
- We increased our investment in undeveloped land to provide greater opportunities to use our development and construction expertise in the improving economic cycle. The new land positions included the exercise of purchase options to acquire \$44 million of land in our newly announced 1,700 acre, multi-year Anson mixed-use development project in suburban Indianapolis. Additionally, we acquired over \$15 million of land to develop a suburban office park with retail amenities in a vibrant north Dallas suburb, thus allowing us to enter the Dallas suburban office market and leverage our development and construction plan.
- We formed our National Development and Construction Group in 2004 to pursue opportunities with companies that have a national presence and seek to expand in multiple locations, including those outside our core markets. This group combines our multiple disciplines including property development, legal and construction management to provide a range of development options for customers.
- Also, 2004 saw the creation of a strategic agreement with a developer of medical office and healthcare related facilities to jointly develop and sell medical facilities throughout the United States. Our partner will develop, lease and manage the facilities while we provide construction financing and general contractor services. We will share 50/50 in the profits upon sale of the projects. This initiative allows us to further leverage our construction capabilities in a significantly growing industry.
- Finally, we will continue to develop long-term investment assets to be held in our portfolio, develop assets to be sold upon completion and perform third-party construction projects. With over \$400 million in our development pipeline at December 31, 2004, we are encouraged about the long-term growth opportunities in our business.

Key Performance Indicators

Our operating results depend primarily upon rental income from our office, industrial and retail properties ("Rental Operations"). The following highlights the areas of Rental Operations that we consider critical for future revenue growth (all square footage totals and occupancy percentages reflect both wholly-owned properties and properties in joint ventures):



Occupancy Analysis: As discussed above, the ability to maintain occupancy rates is a principal driver of our results of operations. The following table sets forth occupancy infor-

mation regarding our in-service portfolio of rental properties as of December 31, 2004 and 2003 (in thousands, except percent occupied):

Type	Total Square Feet		Percent of Total Square Feet		Percent Occupied	
	2004	2003	2004	2003	2004	2003
Industrial						
Service Centers	12,924	13,200	11.8%	12.4%	85.2%	85.8%
Bulk	68,068	66,068	61.9%	62.2%	93.4%	91.1%
Office	28,399	26,213	25.8%	24.7%	87.2%	86.2%
Retail	596	739	0.5%	0.7%	100.0%	98.5%
Total	109,987	106,220	100.0%	100.0%	90.9%	89.3%

We experienced occupancy improvement in our industrial bulk and office properties during 2004 as business fundamentals improved moderately during the year.

continuing ability to re-lease expiring space. The following table reflects our in-service lease expiration schedule as of December 31, 2004, by product type. The table indicates square footage and annualized net effective rents (based on December 2004 rental revenue) under expiring leases (in thousands):

Lease Expiration and Renewals: Our ability to maintain and grow occupancy rates primarily depends upon our

Year of Expiration	Total Portfolio			Industrial		Office		Retail	
	Square Feet	Dollars	%	Square Feet	Dollars	Square Feet	Dollars	Square Feet	Dollars
2005	12,820	\$ 82,401	12%	10,258	\$ 46,645	2,551	\$ 35,605	11	\$ 151
2006	11,279	76,066	12%	8,941	43,882	2,338	32,184	–	–
2007	12,862	82,939	12%	10,031	46,162	2,807	36,528	24	249
2008	12,813	80,516	12%	9,995	44,617	2,799	35,562	19	337
2009	12,848	86,291	13%	9,420	41,930	3,420	44,231	8	130
2010	9,257	70,347	10%	6,631	33,337	2,618	36,847	8	163
2011	5,400	42,495	6%	3,689	17,757	1,692	24,399	19	339
2012	5,633	34,772	5%	4,231	16,457	1,395	17,982	7	333
2013	4,545	43,454	6%	2,269	9,827	2,244	33,122	32	505
2014	4,154	19,262	3%	3,592	12,251	562	7,011	–	–
2015 and Thereafter	8,360	61,011	9%	5,565	24,594	2,327	33,576	468	2,841
	99,971	\$679,554	100%	74,622	\$337,459	24,753	\$337,047	596	\$5,048
Total Portfolio									
Square Feet	109,987			80,992		28,399		596	
Percent Occupied	90.9%			92.1%		87.2%		100.0%	

We renewed 74.0% and 71.4% of our leases up for renewal totaling approximately 10.0 million and 7.6 million square feet on which we attained a 1.4% and a 1.1% growth in net effective rents in 2004 and 2003, respectively. The relatively flat growth in rental rates is indicative of excess vacancies in many of our markets requiring competitive pricing strategies to retain current tenants. Our lease renewal percentages over the past three years have remained relatively consistent at a 70-75% success rate despite the relatively weak market conditions. We do not expect this renewal percentage in 2005 to differ from that experienced in 2004.

The average term of renewals increased to 3.8 years in 2004 from 3.5 years in 2003. The increase in the average term is due to competitive market conditions with tenants seeking longer leases at attractive rates.

Future Development: Another source of growth in earnings is the development of additional rental properties. These properties should provide future earnings through Service Operations income upon sale or from Rental Operations growth as they are placed in service. We had 4.2 million square feet of property under development with total project costs of \$194.9 million at December 31, 2004, compared to 2.8 million square feet and total project costs of \$160.3 million at December 31, 2003. The increase in volume is attributable to a general increase in leasing activity and speculative and preleased developments in 2004. In 2003, we specifically limited the development of speculative properties due to the weakened economy. Our speculative development levels are still below historical levels; however, as certain sectors of the economy begin to improve, our level of speculative development may increase.



management's discussion and analysis of financial condition and results of operations

A summary of properties under development as of December 31, 2004, follows (in thousands, except percent leased and anticipated stabilized returns):

Anticipated In-Service Date	Square Feet	Percent Leased	Project Costs	Anticipated Stabilized Return
Held for Rental:				
1st Quarter 2005	2,094	45%	\$ 57,056	9.8%
2nd Quarter 2005	320	39%	19,617	10.2%
3rd Quarter 2005	307	42%	27,950	10.2%
Thereafter	523	63%	51,004	10.6%
	<u>3,244</u>	47%	<u>\$155,627</u>	10.2%
Held-for-sale:				
1st Quarter 2005	919	100%	\$ 28,951	8.3%
2nd Quarter 2005	26	100%	4,022	9.4%
3rd Quarter 2005	39	53%	6,308	9.6%
Thereafter	-	-	-	-
	<u>984</u>	98%	<u>\$ 39,281</u>	8.6%
Total	<u>4,228</u>	59%	<u>\$194,908</u>	9.9%

Acquisition and Disposition Activity: We have an active capital recycling program based upon a strategy to dispose of non-strategic assets and utilize the proceeds to fund new development and acquisitions of more desirable properties. Through this program, we are continually improving the overall quality of our investment portfolio.

Sales proceeds from dispositions of held-for-rental properties in 2004 and 2003, were \$147 and \$126 million, respectively. The disposition proceeds were used to partially

fund 2004 and 2003 acquisitions of \$264 and \$232 million, respectively. We will continue to pursue both disposition and acquisition opportunities that arise in 2005.

Results of Operations

A summary of our operating results and property statistics for each of the years in the three-year period ended December 31, 2004, follows (in thousands, except number of properties and per share amounts):

	2004	2003	2002
Rental Operations revenues from Continuing Operations	\$765,651	\$713,031	\$680,007
Service Operations revenues from Continuing Operations	70,803	59,456	68,580
Earnings from Continuing Rental Operations	165,000	180,944	210,296
Earnings from Continuing Service Operations	24,421	21,821	30,270
Operating income	163,031	180,638	215,275
Net income available for common shares	151,279	161,911	153,969
Weighted average common shares outstanding	141,379	135,595	133,981
Weighted average common and dilutive potential common shares	157,062	151,141	150,839
Basic income per common share:			
Continuing operations	\$.89	\$ 1.06	\$ 1.10
Discontinued operations	\$.18	\$.13	\$.05
Diluted income per common share:			
Continuing operations	\$.88	\$ 1.06	\$ 1.09
Discontinued operations	\$.18	\$.13	\$.05
Number of in-service properties at end of year	876	884	910
In-service square footage at end of year	109,987	106,220	105,196
Under development square footage at end of year	4,228	2,813	3,058



Comparison of Year Ended December 31, 2004 to Year Ended December 31, 2003

Rental Income from Continuing Operations

Rental income from continuing operations increased from \$689.3 million in 2003 to \$744.1 million in 2004. The following table reconciles rental income from continuing operations by reportable segment to total reported rental income from continuing operations for the years ended December 31, 2004 and 2003 (in thousands):

	2004	2003
Office	\$459,431	\$419,962
Industrial	274,393	259,762
Retail	4,893	5,863
Other	5,348	3,756
Total	<u>\$744,065</u>	<u>\$689,343</u>

Our three reportable segments comprising Rental Operations (office, industrial and retail) are all within the real estate industry; however, the same economic and industry conditions do not necessarily affect them. The primary causes of the increase in rental income from continuing operations, with specific references to a particular segment when applicable, are summarized below:

- Our in-service occupancy increased from 89.3% at December 31, 2003, to 90.9% at December 31, 2004. Improving occupancy continues to be a key management goal in 2005.
- During the year ended 2004, we acquired 19 new properties and placed 18 development projects in-service. These acquisitions and developments are the primary factors in the overall \$54.8 million increase in rental revenue for the year ended 2004, compared to the same period in 2003.

The 19 property acquisitions totaled \$264.0 million on 2.6 million square feet and were 80.3% leased at December 31, 2004. The two largest acquisitions were office buildings in Atlanta and Cincinnati. The 2004 acquisitions provided revenues of \$14.2 million. Revenues from acquisitions that occurred during 2003 were \$35.2 million in 2004 compared to \$11.9 million in 2003.

Developments placed in service in 2004 provided revenues of \$9.9 million, while revenues associated with developments placed in service in 2003 totaled \$14.7 million in 2004 compared to \$6.6 million in 2003.

- The rental income shown above includes lease termination fees. Lease termination fees relate to specific tenants that pay a fee to terminate their lease obligations before the end of the contractual lease term. Lease termination fees totaled \$16.2 million in 2003, compared to \$14.7 in 2004. The decrease in termination fees corresponds with fewer corporate downsizings due to improving market conditions.

Equity in Earnings of Unconsolidated Companies

Equity in earnings represents our ownership share of net income from investments in unconsolidated companies. These joint ventures generally own and operate rental properties and hold land for development. These earnings decreased from \$23.7 in 2003 to \$21.6 million in 2004 despite overall occupancy remaining relatively flat around 94%. The decrease in earnings is due to the following:

- A tenant filed for bankruptcy in one joint venture property resulting in occupancy for the property at the end of 2004 being 69.7% versus 87.4% in 2003.
- We sold our interest in one joint venture in December 2003 and, as a result, no earnings were recorded in 2004.

Rental Expenses and Real Estate Taxes

The following table reconciles rental expenses and real estate taxes by reportable segment to our total reported amounts in the statement of operations for the years ended December 31, 2004 and 2003 (in thousands):

	2004	2003
Rental Expenses:		
Office	\$117,300	\$104,056
Industrial	37,551	34,872
Retail	501	609
Other	718	1,689
Total	<u>\$156,070</u>	<u>\$141,226</u>
Real Estate Taxes:		
Office	\$ 48,559	\$ 42,850
Industrial	31,554	29,846
Retail	446	323
Other	4,243	4,131
Total	<u>\$ 84,802</u>	<u>\$ 77,150</u>

The increased rental and real estate tax expenses for 2004, as compared to 2003, were primarily the result of our increase in average in-service square feet and occupancy. These increases resulted from our acquisition activities and developments placed in service as noted above.

Interest Expense

Interest expense increased from \$125.7 million in 2003 to \$135.1 million in 2004. We issued new debt to fund debt maturities, new developments and acquisitions and to take advantage of the favorable interest rate environment. The following is a summary of debt activities for 2004:

- In January, we obtained a \$65 million floating rate term loan and immediately fixed the rate at 2.18% with two interest rate swaps. We expect to pay off this loan in the first quarter of 2005. Also in January, we issued \$125 million of unsecured debt with a four-year maturity at 3.35%. In August we issued \$250 million of unsecured debt with a ten-year



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maturity at an effective rate of 6.33%. In December we issued \$250 million of unsecured floating rate debt at 26 basis points over LIBOR. The debt matures in two years, but is callable at our option after six months.

- In August, we paid off \$15 million of a \$40 million secured floating rate term loan. We also assumed \$29.9 million of secured debt in conjunction with a property acquisition in Atlanta.
- The average balance and average borrowing rate of our \$500 million revolving credit facility were slightly higher in 2004 than in 2003. At the end of 2004 we were not utilizing our credit facility.

Depreciation and Amortization Expense

Depreciation and amortization expense increased from \$188.0 million in 2003 to \$224.6 million in 2004 as a result of increased capital spending associated with increased leasing, the additional basis resulting from acquisitions, development activity and the application of SFAS 141 as described below. The points below highlight the significant increase in depreciation and amortization.

- Depreciation expense on tenant improvements increased by \$14.1 million.
- Depreciation expense on buildings increased by \$6.0 million.
- Lease commission amortization increased by \$2.2 million.

The amortization expense associated with acquired lease intangible assets increased by approximately \$10.0 million. The acquisitions were accounted for in accordance with SFAS 141 which requires the allocation of a portion of a property's purchase price to intangible assets for leases acquired and in-place at the closing date of the acquisition. These intangible assets are amortized over the remaining life of the leases (generally 3-5 years) as compared to the building basis portion of the acquisition, which is depreciated over 40 years.

Service Operations

Service Operations primarily consist of our merchant building sales and the leasing, management, construction and development services for joint venture properties and properties owned by third parties. These operations are heavily influenced by the current state of the economy as leasing and management fees are dependent upon occupancy while construction and development services rely on businesses expanding operations. Service Operations earnings increased from \$21.8 million in 2003 to \$24.4 million in 2004. The increase reflects higher construction volumes partially offset by increased staffing costs for our new National Development and Construction group and construction jobs in certain markets. Other factors impacting service operations are discussed below.

- We experienced a 1.6% decrease in our overall gross profit margin percentage in our general contractor business in 2004 as compared to 2003, due to continued competitive pricing pressure in many of our markets. We expect margins to increase in 2005 as economic conditions improve. However, despite this decrease, we were able to increase our net general contractor revenues from \$26.8 million in 2003 to \$27.6 million in 2004 because of an increase in volume. This volume increase was attributable to continued low financing costs available to businesses, thereby making it more attractive for them to own instead of lease facilities. We have a substantial backlog of \$183.2 million for third party construction as of December 31, 2004, that will carry into 2005.
- Our merchant building development and sales program, whereby a building is developed by us and then sold, is a significant component of construction and development income. During 2004, we generated after tax gains of \$16.5 million from the sale of six properties compared to \$9.6 million from the sale of four properties in 2003. Profit margins on these types of building sales fluctuate by sale depending on the type of property being sold, the strength of the underlying tenant and nature of the sale, such as a pre-contracted purchase price for a primary tenant versus a sale on the open market.

General and Administrative Expense

General and administrative expense increased from \$22.1 million in 2003 to \$26.4 million in 2004. The increase was a result of increased staffing and employee compensation costs to support development of our National Development and Construction group. We also experienced an increase in marketing to support certain new projects.

Other Income and Expenses

Earnings from sales of land and ownership interests in unconsolidated companies, net of impairment adjustments, is comprised of the following amounts in 2004 and 2003 (in thousands):

	2004	2003
Gain on sale of joint venture interests	\$ 83	\$ 8,617
Gain on land sales	10,543	7,695
Impairment adjustment	(424)	(560)
Total	<u>\$10,202</u>	<u>\$15,752</u>

In the first quarter of 2003, we sold our 50% interest in a joint venture that owned and operated depreciable investment property. The joint venture developed and operated real estate assets; thus, the gain was not included in operating income.



Gain on land sales are derived from sales of undeveloped land owned by us. We pursue opportunities to dispose of land in markets with a high concentration of undeveloped land and in those markets where the land no longer meets our strategic development plans. The increase was partially attributable to a land sale to a current corporate tenant for potential future expansion.

We recorded \$424,000 and \$560,000 of impairment charges associated with contracts to sell land parcels for the years ended December 31, 2004 and 2003, respectively. As of December 31, 2004, only one parcel on which we recorded impairment charges is still owned by us. We anticipate selling this parcel in the first quarter of 2005.

Discontinued Operations

We have classified operations of 86 buildings as discontinued operations as of December 31, 2004. These 86 buildings consist of 69 industrial, 12 office and five retail properties. As a result, we classified net income from operations, net of minority interest, of \$1.6 million, \$6.3 million and \$10.7 million as net income from discontinued operations for the years ended December 31, 2004, 2003 and 2002, respectively. In addition, 41 of the properties classified in discontinued operations were sold during 2004, 42 properties were sold during 2003, two properties were sold during 2002 and one operating property is classified as held-for-sale at December 31, 2004. The gains on disposal of these properties, net of impairment adjustment and minority interest, of \$23.9 million and \$11.8 million for the years ended December 31, 2004 and 2003, respectively, are also reported in discontinued operations. For the year ended December 31, 2002, a \$4.5 million loss on disposal of properties, net of impairment adjustments and minority interest, is reported in discontinued operations due to impairment charges of \$7.7 million recorded on three properties in 2002 that were later sold in 2003 and 2004.

Comparison of Year Ended December 31, 2003 to Year Ended December 31, 2002

Rental Income from Continuing Operations

Rental income from continuing operations increased from \$652.8 million in 2002 to \$689.3 million in 2003. The following table reconciles rental income by reportable segment to our total reported rental income from continuing operations for the years ended December 31, 2003 and 2002 (in thousands):

	2003	2002
Office	\$419,962	\$393,810
Industrial	259,762	250,391
Retail	5,863	4,733
Other	3,756	3,893
Total	<u>\$689,343</u>	<u>\$652,827</u>

Although our three reportable segments comprising Rental Operations (office, industrial and retail) are all within the real estate industry, they are not necessarily affected by the same economic and industry conditions. For example,

our retail segment experienced high occupancies and strong overall performance during 2003, while our office and industrial segments reflected the weaker economic environment for those property types. The primary causes of the increase in rental income from continuing operations, with specific references to a particular segment when applicable, are summarized below:

- During 2003, in-service occupancy improved from 87.1% at the end of 2002 to 89.3% at the end of 2003. The second half of 2003 was highlighted by a significant increase in the industrial portfolio occupancy of 2.1% along with a slight increase in office portfolio occupancy of 0.9%.
- Lease termination fees totaled \$27.4 million in 2002 compared to \$16.2 million in 2003. Most of this decrease was attributable to the office segment, which recognized \$21.1 million of termination fees in 2002 as compared to \$11.8 million in 2003. Lease termination fees relate to specific tenants that pay a fee to terminate their lease obligations before the end of the contractual lease term. The high volume of termination fees in 2002 was reflective of the contraction of the business of large office users during that year and their desire to downsize their use of office space. The decrease in termination fees for 2003 was indicative of an improving economy and a more stable financial position of our tenants.
- During the year ended 2003, we acquired \$232 million of properties totaling 2.1 million square feet. The acquisitions were primarily Class A office buildings in existing markets with overall occupancy near 90%. Revenues associated with these acquisitions totaled \$11.9 million in 2003. In addition, revenues from 2002 acquisitions totaled \$15.8 million in 2003 compared to \$4.8 million in 2002. This significant increase is primarily due to a large office acquisition that closed at the end of December 2002.
- Developments placed in-service in 2003 provided revenues of \$6.6 million, while revenues associated with developments placed in-service in 2002 totaled \$13.7 million in 2003 compared to \$4.7 million in 2002.
- Proceeds from dispositions of held for rental properties totaled \$126.1 million in 2003, compared to \$40.9 million in 2002. These properties generated revenue of \$12.5 million in 2003 versus \$19.6 million in 2002.

Equity in Earnings of Unconsolidated Companies

Equity in earnings represents our ownership share of net income from investments in unconsolidated companies. These joint ventures generally own and operate rental properties and hold land for development. These earnings decreased from \$27.2 million in 2002 to \$23.7 million in 2003. This decrease is a result of the following significant activity:



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- In 2002, a \$1.8 million gain was recognized on a property that was developed and sold upon completion to a third party.
- In 2003, our total investment in joint ventures decreased. This decrease was the result of our acquiring our partner's interest in three joint ventures, selling our interest in two and one venture being dissolved in 2003. While the number of joint ventures decreased, the joint ventures' occupancy increased from 93.2% to 94.0% in 2003.

Rental Expenses and Real Estate Taxes

The following table reconciles rental expenses and real estate taxes by reportable segment to our total reported amounts in the statement of operations for the years ended December 31, 2003 and 2002 (in thousands):

	2003	2002
Rental Expenses:		
Office	\$104,056	\$ 92,190
Industrial	34,872	28,585
Retail	609	281
Other	1,689	1,394
Total	<u>\$141,226</u>	<u>\$122,450</u>
Real Estate Taxes:		
Office	\$ 42,850	\$ 38,485
Industrial	29,846	27,934
Retail	323	325
Other	4,131	3,047
Total	<u>\$ 77,150</u>	<u>\$ 69,791</u>

The increased rental and real estate tax expenses for 2003, as compared to 2002, was primarily the result of our increase in average in-service square feet and occupancy. These increases resulted from our acquisition activities and developments placed in service in 2003.

Interest Expense

Our interest expense increased from \$111.4 million in 2002 to \$125.7 million in 2003. Although we benefited from significantly lower interest rates during 2003, interest expense increased because of increased borrowings during the year and a decrease in the amount of interest that was capitalized. The increased borrowings reflected the funding of our developments during the year and the excess of properties acquired over those disposed. Interest capitalized for 2003 was significantly lower than 2002 as development activity for 2003 was substantially slower than prior years. Development starts for 2003 totaled only \$108 million compared to approximately \$225 million for 2002. Other significant factors impacting interest expense for 2003 are summarized as follows:

- We continued to replace secured debt financing with unsecured debt, and paid off over \$120 million of secured loans throughout 2003. The payoffs

included secured loans due in 2003 and those due in 2004 and beyond for which we were able to take advantage of expired or negotiated lower prepayment penalties and utilize lower financing costs from unsecured debt offerings or the unsecured line of credit.

- Approximately \$425 million of new unsecured debt was issued in 2003. We issued \$175 million of seven-year debt in January 2003 at an effective interest rate of 5.37%, \$150 million of ten-year debt in May 2003 at an effective interest rate of 4.64% and \$100 million of four-year debt in November 2003 at an effective interest rate of 3.63%. We retired \$175 million of debt in June 2003 that had an effective interest rate of 7.33%.
- We utilized our \$500 million unsecured line of credit more heavily in 2003 than during 2002 in order to take advantage of the historically low borrowing costs. The balance on the line of credit was \$351 million at December 31, 2003 compared to \$281 million at December 31, 2002.

Depreciation and Amortization Expense

Depreciation and amortization expense for 2003 increased by approximately \$22.0 million compared to 2002 because of an increase in tenant improvements and leasing costs. As discussed earlier, we experienced higher overall occupancy and more acquisition activity in 2003, which resulted in increased capital expenditures for tenant improvements and deferred lease commissions as well as increases in held for investment property basis. The following highlights the significant changes in depreciable and amortizable property during 2003:

- The basis of the held for investment property portfolio increased by \$166 million as a result of our development and acquisition activity.
- We incurred tenant improvement costs of \$91.3 million in 2003.
- We incurred lease commissions of \$41.6 million in 2003.

The amortization associated with the acquired lease intangible assets recorded on 2003 acquisitions totaled \$4.2 million. The acquisitions were accounted for in accordance with SFAS 141, which requires the allocation of a portion of a property's purchase price to intangible assets for leases acquired and in-place at the closing date of the acquisition. These intangible assets are amortized over the remaining life of the leases (generally 3-5 years) as compared to the building basis portion of the acquisition, which is depreciated over 40 years.

Service Operations

Service Operations primarily consist of leasing, management, construction and development services for joint venture properties and properties owned by third parties. These



operations are heavily influenced by the current state of the economy as leasing and management fees are dependent upon occupancy while construction and development services rely on businesses expanding operations. The following highlights the significant components of revenues in Service Operations:

- We experienced more than a 2% decrease in overall gross profit margin percentage in our general contractor business in 2003 because of more competitive pricing in many of our markets. However, despite this decrease, we were able to increase net general contractor revenues from \$21.9 million in 2002 to \$26.8 million in 2003 because of a significant increase in volume. This volume increase was attributable to the low cost of financing available to businesses, thereby making it more attractive for them to own instead of lease facilities.
- Property management, maintenance and leasing fee revenues have remained fairly constant between 2002 and 2003, as the number of properties we managed has not changed significantly.
- Construction management and development activity income represents construction and development fees earned on projects where we act as the construction manager along with profits from our merchant building program under which we develop property with the intent to sell upon completion. The decrease in revenues from \$29.4 million in 2002 to \$15.5 million in 2003 is primarily due to fewer properties being sold from the program in 2003. During 2002, we sold eight properties for a net gain of \$21.7 million compared to the sale of four properties in 2003 for a net gain of \$9.6 million in 2003. Profit margins on these types of transactions fluctuate by sale depending on the type of property being sold, the strength of the underlying tenant and the nature of the sale, such as a pre-contracted purchase price for a primary tenant versus a sale on the open market.

General and Administrative Expense

General and administrative expense decreased from \$25.3 million in 2002 to \$22.1 million for the year ended December 31, 2003. The decrease is primarily attributable to an increase in construction volume for third party projects resulting in a greater allocation of overhead to Service Operations operating expenses.

Other Income and Expenses

Earnings from sales of land, depreciable property dispositions and ownership interests in unconsolidated companies, net of impairment adjustments, is comprised of the following amounts in 2003 and 2002 (in thousands):

	2003	2002
Gain on sales of depreciable properties	\$ 0	\$ 4,491
Gain on sale of joint venture interests	8,617	0
Gain on land sales	7,695	4,478
Impairment adjustment	(560)	(1,677)
Total	<u>\$15,752</u>	<u>\$ 7,292</u>

Gain on sales of depreciable properties represent sales of previously held for investment rental properties which did not qualify to be classified as discontinued operations under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS 144"). There were no such sales in 2003.

In 2003, we sold our interests in two joint ventures that owned and operated depreciable investment property. We owned 50% of each of these joint ventures.

Gain on land sales represents sales of undeveloped land we owned. We pursue opportunities to dispose of land in markets with a high concentration of undeveloped land and those markets where the land no longer meets our strategic development plans.

We recorded \$560,000 of impairment charges on three land parcels that were sold in 2003. The \$1.7 million adjustment recorded in 2002 was associated with three properties determined to be impaired.

Other revenue and expenses are comprised primarily of the write-off of contract development costs for abandoned development projects and gains on terminations of interest rate swaps. In 2003, we recorded contract development expenses of \$1.0 million compared to \$1.2 million in 2002. We accumulate costs of potential projects as an asset until such time as the costs are capitalized into a new project or expensed for a failed project.

In 2003, we terminated four forward starting interest rate swap agreements for a net gain of \$643,000. The swap agreements were entered into as hedges for future anticipated debt issuances. These agreements were terminated as a result of our capital needs being met through the issuance of the Series J Preferred Stock in lieu of the contemplated debt issuances. In 2002, a \$1.4 million gain was recognized in connection with a swap that did not qualify for hedge accounting. See discussion of our use of derivative instruments in the footnotes to the financial statements.

Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Our estimates, judgments and assumptions are continually evaluated based upon available information and experience. Note 2 to the Consolidated Financial Statements includes further discussion of our significant accounting policies.



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Our management has assessed the accounting policies used in the preparation of our financial statements and discussed them with our Audit Committee and independent auditors. The following accounting policies are considered critical based upon materiality to the financial statements, degree of judgment involved in estimating reported amounts and sensitivity to changes in industry and economic conditions:

Accounting for Joint Ventures: We analyze our investments in joint ventures under Financial Accounting Standards Board ("FASB") Interpretation No. 46 (R), *Consolidation of Variable Interest Entities*, to determine if the joint venture is considered a variable interest entity and would require consolidation. We have equity interests ranging from 10%-75% in joint ventures that own and operate rental properties and hold land for development. We consolidate those joint ventures that we control through majority ownership interests or substantial participating rights. Control is further demonstrated by the ability of the general partner to manage day-to-day operations, refinance debt and sell the assets of the joint venture without the consent of the limited partner and inability of the limited partner to replace the general partner. We use the equity method of accounting for those joint ventures where we do not have control over operating and financial policies. Under the equity method of accounting, our investment in each joint venture is included on our balance sheet; however, the assets and liabilities of the joint ventures for which we use the equity method are not included on our balance sheet.

Cost Capitalization: Direct and certain indirect costs, including interest, clearly associated and incremental to the development, construction, leasing or expansion of real estate investments are capitalized as a cost of the property. The following discusses the significant categories of costs we incur:

Within our Rental Operations, direct and indirect costs are capitalized under the guidelines of SFAS No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects* ("SFAS 67"), and interest costs are capitalized under the guidelines of SFAS No. 34, *Capitalization of Interest Cost* ("SFAS 34"). We capitalize these project costs associated with the initial construction of a property up to the time the property is substantially complete and ready for its intended use. We believe the completion of the building shell is the proper basis for determining substantial completion and that this basis is the most widely accepted standard in the real estate industry. The interest rate used to capitalize interest is based upon our average borrowing rate on existing debt.

In addition, we capitalize costs, including interest costs, on vacant space during extended lease-up periods after construction of the building shell has been completed if costs are being incurred to ready the vacant space for its intended use. If costs and activities incurred to ready the vacant space cease, then cost capitalization is also discontinued until such activities are resumed. Once necessary work has been

completed on a vacant space, project costs are no longer capitalized. We cease capitalization of all project costs on extended lease-up periods after the shorter of a one-year period after the completion of the building shell or when the property attains a 90% occupancy. We follow guidelines in SFAS 34 and SFAS 67 in determining the capitalization of project costs during the lease-up period of a property and believe that this treatment is consistent with real estate industry standards for project cost capitalization.

All direct construction and development costs associated with the development of a new property are capitalized. In addition, all leasing commissions paid to third parties for new leases or lease renewals are capitalized. A portion of our indirect costs considered directly related and incremental to construction/development and leasing efforts are capitalized. In assessing the amount of indirect costs to be capitalized, we first allocate payroll costs, on a department-by-department basis, among activities for which capitalization is warranted (i.e., construction, development and leasing) and those for which capitalization is not warranted (i.e., property management, maintenance, acquisitions and dispositions and general corporate functions). To the extent the employees of a department split their time between capitalizable and non-capitalizable activities, the allocations are made based on estimates of the actual amount of time spent in each activity. Once the payroll costs are allocated, the non-payroll costs of each department are allocated among the capitalizable and non-capitalizable activities in the same proportion as payroll costs. The capitalized cost pool does not include any costs allocable to our executive officers.

To ensure that an appropriate amount of costs are capitalized, the amount of capitalized costs that are allocated to a specific project are limited to amounts using standards we developed. These standards consist of a percentage of the total development costs of a project and a percentage of the total gross lease amount payable under a specific lease. These standards are derived after considering both the amount of costs that would need to be paid by us if the services were performed by third parties, and the amounts that would be allocated if the personnel in the departments were working at full capacity. The use of these standards ensures that overhead costs attributable to downtime or to unsuccessful projects or leasing activities are not capitalized by us.

Impairment of Real Estate Investments: We evaluate our real estate investments upon occurrence of significant changes in the operations, but not less than annually, to assess whether any impairment indications are present that affect the recovery of the recorded value. If any real estate investment is considered impaired, a loss is provided to reduce the carrying value of the asset to its estimated fair value. We utilize the guidelines established under SFAS 144 to determine if impairment conditions exist. Under SFAS 144, we review the expected undiscounted cash flows of each property in our held for rental portfolio to determine if there are any indications of impairment of a property. The review of anticipated cash flows involves subjective assumptions



of estimated occupancy and rental rates and ultimate residual value. In addition to reviewing anticipated cash flows, we assess other factors such as changes in business climate and legal factors that may affect the ultimate value of the property. These assumptions are subjective and the anticipated cash flows may not ultimately be achieved.

Real estate assets to be disposed of are reported at the lower of their carrying value amount or the fair value less estimated cost to sell.

Acquisition of Real Estate Property. In accordance with SFAS 141, we allocate the purchase price of acquired properties to net tangible and identified intangible assets based on their respective fair values.

The allocation to tangible assets (buildings, tenant improvements and land) is based upon management's determination of the value of the property as if it were vacant using discounted cash flow models similar to those used by independent appraisers. Factors considered by management include an estimate of carrying costs during the expected lease-up periods considering current market conditions, and costs to execute similar leases. The remaining purchase price is allocated among three categories of intangible assets consisting of the above or below market component of in-place leases, the value of in-place leases and the value of customer relationships.

- The value allocable to the above or below market component of an acquired in-place lease is determined based upon the present value (using an interest rate which reflects the risks associated with the lease) of the difference between (i) the contractual amounts to be paid pursuant to the lease over its remaining term and (ii) management's estimate of the amounts that would be paid using current fair market rates over the remaining term of the lease. The amounts allocated to above or below market leases are included in deferred leasing and other costs in the balance sheet and are amortized to rental income over the remaining terms of the respective leases.
- The total amount of intangible assets is further allocated to in-place lease values and to customer relationship values, based upon management's assessment of their respective values. These intangible assets are included in deferred leasing and other costs in the balance sheet and are depreciated over the remaining term of the existing lease, or the anticipated life of the customer relationship, as applicable.

Valuation of Receivables: We are subject to tenant defaults and bankruptcies that could affect the collection of outstanding receivables. In order to mitigate these risks, we perform in-house credit review and analysis on major existing tenants and all significant leases before they are executed. We have established the following procedures and policies to evaluate the collectibility of outstanding receivables and record allowances:

- We maintain a tenant "watch list" containing a list of significant tenants for which the payment of receivables and future rent may be at risk. Various factors such as late rent payments, lease or debt instrument defaults, and indications of a deteriorating financial position are considered when determining whether to include a tenant on the watch list.
- As a matter of policy, we reserve the entire receivable balance, including straight-line rent, of any tenant with an amount outstanding over 90 days.
- Straight-line rent receivables for any tenant on the watch list or any other tenant identified as a potential long-term risk, regardless of the status of rent receivables, are reviewed and reserved as necessary.

Revenue Recognition on Construction Contracts: We recognize income on construction contracts where we serve as a general contractor on the percentage of completion method. Using this method, profits are recorded on the basis of our estimates of the overall profit and percentage of completion of individual contracts. A portion of the estimated profits is accrued based upon our estimates of the percentage of completion of the construction contract. Cumulative revenues recognized may be less or greater than cumulative costs and profits billed at any point in time during a contract's term. This revenue recognition method involves inherent risks relating to profit and cost estimates with those risks reduced through approval and monitoring processes.

With regards to critical accounting policies, management has discussed the following with the Audit Committee:

- Criteria for identifying and selecting;
- Methodology in applying; and
- Impact on the financial statements.

The Audit Committee has reviewed the critical accounting policies we identified.

Liquidity and Capital Resources

Sources of Liquidity

We expect to meet our liquidity requirements over the next twelve months, including payments of dividends and distributions as well as recurring capital expenditures relating to maintaining our current real estate assets, primarily through the following:

- working capital; and
- net cash provided by operating activities

Although we historically have not used any other sources of funds to pay for recurring capital expenditures on our current real estate investments, the use of borrowings or property disposition proceeds may be temporarily needed to fund such expenditures during periods of high leasing volume.

We expect to meet long-term liquidity requirements, such as scheduled mortgage debt maturities, preferred stock redemptions, the retirement of unsecured notes and amounts outstanding under the unsecured credit facility,



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property acquisitions, financing of development activities and other non-recurring capital improvements, primarily from the following sources:

- issuance of additional unsecured notes;
- issuance of additional preferred stock;
- undistributed cash provided by operating activities, if any; and
- proceeds received from real estate dispositions.

Rental Operations

We believe our principal source of liquidity, cash flows from Rental Operations, provides a stable source of cash to fund operational expenses. We believe this cash-based revenue stream is substantially aligned with revenue recognition (except for periodic straight-line rental income accruals and amortization of above or below market rents) as cash

receipts from the leasing of rental properties are generally received in advance of or in a short time following the actual revenue recognition. We are subject to risks of decreased occupancy through market conditions as well as tenant defaults and bankruptcies, and potential reduction in rental rates upon renewal or re-letting of properties, which would result in reduced cash flow from operations. However, we believe that these risks are mitigated by our strong market presence in most locations and the fact that we perform in-house credit review and analysis on major tenants and all significant leases before they are executed.

Credit Facilities

We had one unsecured line of credit available at December 31, 2004, described as follows (in thousands):

Description	Borrowing Capacity	Outstanding Maturity Date	Interest Rate	at December 31, 2004
Unsecured Line of Credit	\$500,000	January 2007	LIBOR + .60%	\$ -

The stated interest rate under the line is LIBOR plus sixty basis points. However, the facility provides us with an option to obtain borrowings from financial institutions that participate in the line, at rates lower than the stated interest rate, subject to certain restrictions. At December 31, 2004, we were not using this facility.

The line of credit facility also contains financial covenants that require us to meet defined levels of performance. As of December 31, 2004, we are in compliance with all covenants and expect to remain in compliance for the foreseeable future.

Debt and Equity Securities

We currently have on file with the SEC an effective shelf registration statement that permits us to sell up to an additional \$795.0 million of unsecured debt securities and an additional \$350.7 million of common and preferred stock as of December 31, 2004. From time-to-time, we expect to issue additional securities under these registration statements to fund development and acquisition of additional rental properties and to fund the repayment of the credit facility and other long-term debt upon maturity.

The indenture governing our unsecured notes also requires us to comply with financial ratios and other covenants regarding our operations. We are currently in compliance with all such covenants and expect to remain in compliance for the foreseeable future.

Sale of Real Estate Assets

We utilize sales of real estate assets as an additional source of liquidity. We pursue opportunities to sell real estate assets and prune our older portfolio properties when beneficial to our long-term strategy.

Uses of Liquidity

Our principal uses of liquidity include the following:

- Property investments;
- Recurring leasing/capital costs;
- Dividends and distributions to shareholders and unitholders;
- Long-term debt maturities; and
- Other contractual obligations.

Property Investments

We evaluate development and acquisition opportunities based upon market outlook, supply, and long-term growth potential.

Recurring expenditures

A summary of our recurring capital expenditures is as follows for the year ended December 31 (in thousands):

	2004	2003	2002
Tenant improvements	\$ 58,847	\$ 35,972	\$ 28,011
Leasing costs	27,777	20,932	17,975
Building improvements	21,029	19,544	13,373
Totals	<u>\$107,653</u>	<u>\$ 76,448</u>	<u>\$ 59,359</u>



The increase in recurring capital expenditures is the result of higher leasing activity during 2004. Our lease renewal percentage increased from 71.4% in 2003 to 74.0% in 2004.

Dividends and Distributions

In order to qualify as a REIT for federal income tax purposes, we must currently distribute at least 90% of our taxable income to shareholders. We paid dividends per share of \$1.85, \$1.83 and \$1.81 for the years ended December 31, 2004, 2003 and 2002, respectively. We expect to continue to distribute taxable earnings to meet the requirements to maintain our REIT status. However, distributions are declared at the discretion of our Board of Directors and are subject to actual cash available for distribution, our financial condition,

capital requirements and such other factors, as our Board of Directors deems relevant.

Debt Maturities

Debt outstanding at December 31, 2004, totaled \$2.5 billion with a weighted average interest rate of 5.69% maturing at various dates through 2028. We had \$2.3 billion of unsecured debt and \$203.1 million of secured debt outstanding at December 31, 2004. Scheduled principal amortization of such debt totaled \$7.3 million for the year ended December 31, 2004.

Following is a summary of the scheduled future amortization and maturities of our indebtedness at December 31, 2004 (in thousands):

Year	Future Repayments			Weighted Average Interest Rate of Future Repayments
	Scheduled Amortization	Maturities	Total	
2005	\$ 8,686	\$ 270,980	\$ 279,666	6.04%
2006	8,318	415,186	423,504	4.29%
2007	6,891	214,615	221,506	5.51%
2008	6,031	259,028	265,059	4.92%
2009	5,867	275,000	280,867	7.37%
2010	5,313	175,000	180,313	5.39%
2011	4,647	175,000	179,647	6.94%
2012	3,332	200,000	203,332	5.86%
2013	3,049	150,000	153,049	4.64%
2014	3,800	273,196	276,996	6.23%
Thereafter	4,765	50,000	54,765	6.66%
	<u>\$60,699</u>	<u>\$2,458,005</u>	<u>\$2,518,704</u>	5.69%

Historical Cash Flows

A comparison of our historical cash flows for 2004, 2003 and 2002 is as follows (in millions):

	Years Ended December 31,		
	2004	2003	2002
Net Cash Provided by Operating Activities	\$ 378.8	\$ 368.6	\$ 569.6
Net Cash Used for Investing Activities	(430.5)	(320.7)	(338.0)
Net Cash Provided by (Used for) Financing Activities	44.7	(52.7)	(223.7)

Operating Activities

Cash flows from operating activities provide the cash necessary to meet normal operational requirements of our rental operations and merchant building activities. The receipt of rental income from rental operations continues to provide the primary source of our revenues and operating cash flows. In addition, we also develop buildings with the intent to sell, which provides another significant source of operating cash flow activity.

- During the year ended December 31, 2004, we incurred merchant building development costs of \$43.1 million compared to \$55.6 million for the year ended December 31, 2003. The difference is reflective of the timing of activity in the held for

sale pipeline as we had significant sales of these properties during the fourth quarter of 2003; thus, the development costs were much higher for 2003. The pipeline of held for sale projects under construction as of December 31, 2004 has anticipated costs of \$39.3 million.

- We sold six merchant buildings in 2004, for a net after tax gain of \$16.5 million as compared to four in 2003 for a net after tax gain of \$9.6 million.

Investing Activities

Investing activities are one of the primary uses of our liquidity. Development and acquisition activity typically generates



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additional rental revenues and provides cash flows for operational requirements. Highlights of significant cash uses are as follows:

- Development costs increased to \$145.6 million for the year ended December 31, 2004 from \$129.2 million for the same period in 2003. The increase reflects the overall improvement in the development climate during 2004. We anticipate development volume to increase in 2005 through new initiatives such as our 1,700-acre, mixed-use project referred to as the Anson project and our National Development and Construction group.
- In the year ended December 31, 2004, we have significantly increased our costs associated with the acquisition of land held for development. We acquired \$116.7 million of land in 2004 as compared to \$32.9 million in 2003. The significant increase is primarily attributable to the acquisition of over 260 acres of land at a cost of over \$37 million in our Indianapolis market. This initial acquisition is part of our 1,700-acre, mixed-use Anson project, which we anticipate will be developed over a 15-year period.
- Recurring costs for tenant improvements, lease commissions and building improvements have continued to increase. Management anticipates that these costs will remain high as overall portfolio occupancy continues to increase.
- Sales of land and depreciated property provided \$178.3 million in net proceeds in 2004, compared to \$167.6 million in 2003. Sales of non-strategic and older properties will continue to be utilized as part of our capital recycling program to fund acquisitions and new development while improving the overall quality of our investment portfolio.

Financing Activities

We raised capital by borrowing from banks, utilizing the public debt markets and issuing preferred stock in 2004. In order to enhance our flexibility with respect to properties, we have continued to replace secured debt with unsecured debt. Our low leverage provides us with the opportunity to borrow funds at very attractive rates. Highlights of significant financing activities are as follows:

- In February, we received approximately \$145.0 million in net proceeds from the issuance of our Series K preferred stock. These preferred shares were issued at a favorable dividend yield of 6.5%. The Series K preferred shares issuance corresponded with the redemption of \$100.0 million of Series E preferred shares in January, which carried an 8.25% dividend rate.
- We took advantage of the low interest rate environment in January when we issued \$125.0 million of unsecured

debt at 3.35% with a four-year term. The net proceeds from this unsecured offering were used to decrease the amounts outstanding under our unsecured line of credit.

- In February, we called for the redemption of all the Series D convertible preferred shares as of March 16, 2004. The redemption price of each depository share of the Series D stock was \$25, whereas each depository share was convertible into .93677 shares of our common stock. Since the value of our common stock was well in excess of the \$26.68 strike price per share during the redemption period, the vast majority of the Series D shareholders elected to convert their shares into common stock. Prior to the redemption date, 5,242,635 Series D convertible preferred depository shares were converted into 4,911,143 common shares, with the remaining 103,695 Series D convertible preferred depository shares redeemed for \$2.6 million on March 16, 2004.
- We paid \$2.9 million in cash to a group of warrant holders in exchange for the cancellation of their warrants in March. The price paid represented the "in-the money" value of the warrants based upon the difference between the exercise price of the warrants and the price of the our common stock at the exercise date.
- In August, we issued \$250 million of 5.40% unsecured notes due in 2014. The notes were issued as part of an exchange of securities for \$100 million principal amount of our 6.95% unsecured debt. The remaining cash proceeds were used to finance costs associated with the offering and exchange of debt, and to reduce amounts outstanding under our unsecured line of credit.
- In November, we issued our Series L preferred stock and received approximately \$194 million in net proceeds. These preferred shares were issued at a dividend yield of 6.6%. The proceeds were used to reduce borrowings under our unsecured line of credit that had partially increased as a result of the maturity and payment of \$50 million of medium term notes carrying an interest rate of 7.22%.
- In December, we issued \$250 million of unsecured floating rate debt at 26 basis points over LIBOR. The debt matures in two years but is callable after six months. The proceeds were used to pay off our credit line, which was not being utilized at December 31, 2004.

Credit Ratings

We are currently assigned investment grade corporate credit ratings on senior unsecured notes from Fitch Ratings, Moody's Investor Service and Standard and Poor's Ratings Group. Currently, Fitch and Standard and Poor's have assigned a rating of BBB+ and Moody's Investors has assigned a rating of Baa1 to the senior notes.



We also received investment grade credit ratings from the same rating agencies on our preferred stock. Fitch and Standard and Poor's have assigned a Preferred Stock rating of BBB and Moody's Investors has assigned a Preferred Stock rating of Baa2.

These senior notes and Preferred Stock ratings could change based upon, among other things, our results of operations and financial condition.

Financial Instruments

We are exposed to capital market risk, such as changes in interest rates. In order to manage the volatility relating to interest rate risk, we may enter into interest rate hedging arrangements from time to time. We do not utilize derivative financial instruments for trading or speculative purposes. We account for derivative instruments under SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*," as amended ("SFAS 133").

During the first quarter of 2004, we funded a \$65 million note receivable secured by a first mortgage on a portfolio of office properties owned by a third party located in Atlanta, Georgia. The note receivable had a maximum two-year term with an interest rate of 5.5% for the first 6 months and 6.5% thereafter. In order to fund the note receivable, we borrowed \$65 million under a variable interest rate term loan. The loan bears interest at the rate of LIBOR + 75 basis points, has a maturity date of January 2005, and contains two six month renewal options. To hedge our variable interest rate risk on the loan, we entered into two interest rate swaps totaling \$65 million that effectively fixed the rate at 2.184% through maturity. The hedge accounting rules are being used for the swaps, which allow for changes in market value of the swaps to be recorded through Other Comprehensive Income ("OCI") in equity versus earnings in the Statement of Operations. In the third quarter of 2004, the \$65 million note receivable was repaid in connection with our acquisition of the properties that secured the note. However, our \$65 million note payable and related interest swaps were not retired. As of December 31, 2004, the fair value of the hedge was \$51,000, which was reflected through an increase in other assets and OCI on our balance sheet.

In June 2004, we simultaneously entered into three forward-starting interest rate swaps aggregating \$144.3 million, which effectively fixed the rate on financing expected in 2004 at 5.346%, plus our credit spread over the swap rate. The swaps qualified for hedge accounting under SFAS 133; therefore, changes in the fair value were recorded in OCI. In August 2004, we settled these three swaps when we issued \$250.0 million of unsecured notes with an effective interest rate of 6.33%, due in 2014. We paid \$6.85 million to unwind the swaps, which will be amortized from OCI into interest expense over the life of the new 6.33% notes.

In December 2002, we simultaneously entered into two \$50 million forward-starting interest rate swaps as a hedge to effectively fix the rate on unsecured debt financings expected in 2003. Then again in February 2003,

we simultaneously entered into two additional \$25 million forward-starting interest rate swaps as a hedge to effectively fix the rate on unsecured debt financings expected in 2003. All four swaps qualified for hedge accounting under SFAS 133; therefore, changes in fair value were recorded in other comprehensive income. In July 2003, we terminated the swaps for a net gain of \$643,000, which is included in other revenue in the Statements of Operations. The swaps were terminated because our capital needs were met through the issuance of the Series J Preferred Stock in lieu of the previously contemplated issuance of debt.

During the year ended December 31, 2002, we recorded a \$1.4 million gain associated with an interest rate contract that did not qualify for hedge accounting. The contract expired on December 30, 2002.

In May 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* ("SFAS 150"). SFAS 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. SFAS 150 is effective for all financial instruments created or modified after May 31, 2003, and otherwise is effective July 1, 2003. We include the operations of one joint venture in our consolidated financial statements. This joint venture is partially owned by unaffiliated parties that have noncontrolling interests. SFAS 150 requires the disclosure of the estimated settlement value of these noncontrolling interests. As of December 31, 2004, the estimated settlement value of the noncontrolling interest in this consolidated joint venture was approximately \$1.0 million as compared to the minority interest asset recorded on our books for this joint venture of \$142,000.

Off Balance Sheet Arrangements

Investments in Unconsolidated Companies

We have equity interests ranging from 10% – 64% in unconsolidated companies that own and operate rental properties and hold land for development. The equity method of accounting is used for these investments in which we have the ability to exercise significant influence, but not control, over operating and financial policies. As a result, the assets and liabilities of these joint ventures are not included on our balance sheet.

Our investment in unconsolidated companies represents less than 5% of our total assets as of December 31, 2004. These investments provide several benefits to us, including increased market share, tenant and property diversification and an additional source of capital to fund real estate projects.

The following tables presents summarized financial information for unconsolidated companies for the years ended December 31, 2004 and 2003 (in thousands, except percentages):



management's discussion and analysis of financial condition and results of operations

	Dugan Realty, LLC		Dugan Texas, LLC		Dugan Office, LLC		Other Industrial and Office Joint Ventures		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Land, buildings and tenant improvements, net	\$715,931	\$727,411	\$210,524	\$209,602	\$ 88,088	\$ 91,170	\$143,525	\$145,049	\$1,158,068	\$1,173,232
Land held for development	18,174	17,663	11,312	12,710	4,293	4,293	16,394	16,662	50,173	51,328
Other assets	29,738	29,213	13,223	16,535	3,256	2,934	15,973	13,514	62,190	62,196
	<u>\$763,843</u>	<u>\$774,287</u>	<u>\$235,059</u>	<u>\$238,847</u>	<u>\$ 95,637</u>	<u>\$ 98,397</u>	<u>\$175,892</u>	<u>\$175,225</u>	<u>\$1,270,431</u>	<u>\$1,286,756</u>
Property indebtedness	\$412,179	\$409,349	\$ 18,000	\$ 16,035	\$ 68,393	\$ 69,160	\$ 72,369	\$ 83,188	\$ 570,941	\$ 577,732
Other liabilities	18,921	18,232	8,791	9,342	3,318	3,460	20,347	10,657	51,377	41,691
	<u>431,100</u>	<u>427,581</u>	<u>26,791</u>	<u>25,377</u>	<u>71,711</u>	<u>72,620</u>	<u>92,716</u>	<u>93,845</u>	<u>622,318</u>	<u>619,423</u>
Owners' equity	332,743	346,706	208,268	213,470	23,926	25,777	83,176	81,380	648,113	667,333
	<u>\$763,843</u>	<u>\$774,287</u>	<u>\$235,059</u>	<u>\$238,847</u>	<u>\$ 95,637</u>	<u>\$ 98,397</u>	<u>\$175,892</u>	<u>\$175,225</u>	<u>\$1,270,431</u>	<u>\$1,286,756</u>
Rental income	\$ 98,020	\$ 97,150	\$ 29,860	\$ 28,248	\$ 14,776	\$ 18,202	\$ 25,147	\$ 26,627	\$ 167,803	\$ 170,227
Net income	\$ 23,398	\$ 23,397	\$ 13,039	\$ 12,688	\$ 252	\$ 1,536	\$ 3,449	\$ 3,444	\$ 40,138	\$ 41,065
Total square feet	22,763	22,761	6,018	5,808	652	652	4,465	4,465	33,898	33,686
Percent leased	95.0%	94.8%	95.3%	95.0%	69.7%	87.4%	94.2%	89.4%	94.4%	94.0%
Company ownership percentage	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	10.0% - 64.0%	10.0% - 64.0%		

Off Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as "special purpose entities," which are generally established for the purpose of facilitating off-balance sheet arrangements or other specific purposes.

Contractual Obligations

As of December 31, 2004, we are subject to certain contractual payment obligations as described in the table below (in thousands):

Contractual Obligations	Payments due by Period						
	Total	2005	2006	2007	2008	2009	Thereafter
Long-term debt ⁽¹⁾	\$3,040,759	\$415,068	\$317,848	\$326,059	\$351,371	\$356,444	\$1,273,969
Line of credit ⁽²⁾	—	—	—	—	—	—	—
Share of mortgage debt of unconsolidated joint ventures ⁽³⁾	332,440	48,364	29,538	74,825	12,552	55,798	111,363
Ground leases	8,204	288	295	309	305	288	6,719
Operating leases	1,173	383	236	228	216	110	—
Development and construction backlog costs ⁽⁴⁾	227,141	227,141	—	—	—	—	—
Future land acquisitions ⁽⁵⁾	43,779	40,277	1,751	1,751	—	—	—
Service contracts ⁽⁶⁾	72,552	14,676	14,527	14,512	14,221	14,616	—
Other ⁽⁷⁾	8,000	8,000	—	—	—	—	—
Total Contractual Obligations	<u>\$3,734,048</u>	<u>\$754,197</u>	<u>\$364,195</u>	<u>\$417,684</u>	<u>\$378,665</u>	<u>\$427,256</u>	<u>\$1,392,051</u>

(1) Our long-term debt consists of both secured and unsecured debt and includes both principal and interest. Interest expense for variable rate debt was calculated using the interest rate at December 31, 2004.

(2) Our unsecured line of credit matures in 2007. We were not using our line of credit at December 31, 2004.

(3) Our share of unconsolidated mortgage debt includes both principal and interest. Interest expense for variable rate debt was calculated using the interest rate at December 31, 2004.

(4) Represents estimated remaining costs on the completion of held-for-rental, held-for-sale and third-party construction projects.

(5) These land acquisitions are subject to the completion of due diligence requirements, resolution of certain contingencies and completion of certain contingencies and completion of customary closing conditions. If we were to terminate these contracts, we would forfeit our total escrow amount of \$1,485,000 and would have no further contractual obligations.

(6) Service contracts defined as those which cover periods greater than one year and are not cancelable without cause by either party.

(7) Represents the contracted purchase price of a building.

Related Party Transactions

We provide property management, leasing, construction and other tenant related services to properties in which former executive officers and current directors have ownership interests. We received fees totaling approximately \$693,000,

\$1.2 million, and \$1.4 million in 2004, 2003 and 2002, respectively, for services provided to these properties. The fees we charged for such services are equivalent to those charged to unrelated third-party owners for similar services. We had an option to acquire the executive officers' interests



in these properties. Two of these properties, the Bank One Towers office buildings in Cincinnati, Ohio, were acquired in August 2003 at a price of \$45.5 million. The terms of this acquisition were reviewed and approved by the independent members of our Board of Directors. The options on the remaining properties expired in October 2003, as the independent members of our Board of Directors determined that it was not in our best interest to exercise the options.

We provide property management, leasing, construction and other tenant related services to unconsolidated companies in which we have an equity interest. For each of the years ended December 31, 2004, 2003 and 2002, we received management fees of \$4.9 million from these unconsolidated companies. In addition, for each of the years ended December 31, 2004, 2003 and 2002, respectively, we received from these entities leasing fees of \$2.6 million, \$2.3 million and \$2.5 million and construction and development fees of \$1.5 million, \$1.4 million and \$4.5 million. These fees were charged at market rates and we eliminated our ownership percentage of these fees in the consolidated financial statements.

In 2002, we received lease termination fees totaling \$7.7 million from a tenant that is a subsidiary of Progress Energy, Inc. At that time, William Cavanaugh III was President and Chief Executive Officer of Progress Energy, Inc. and a member of our Board of Directors. Our independent directors approved the transaction and management believes that the amount received approximates a value that would have been charged to tenants with similar lease terms and commitments.

Commitments and Contingencies

In 1998 and 1999, certain members of management and the Board of Directors purchased \$69 million of common stock in connection with an Executive and Senior Officer Stock Purchase Plan. The purchases were financed by five-year personal loans at market interest rates from financial institutions. As of December 31, 2004, the outstanding balance on these loans was approximately \$1.6 million as some participants have extended their involvement in the program beyond the original five years. These loans were secured by common shares with a fair market value of approximately \$2.5 million purchased through this program and owned by the remaining plan participants at December 31, 2004. As a condition of the financing agreement with the financial institution, we guaranteed repayment of principal, interest and other obligations for each participant, but are fully indemnified by the participants. In the opinion of management, it is not probable that we will be required to satisfy these guarantees.

In October 2000, we sold or contributed industrial properties and undeveloped land with a fair value of \$487 million to a joint venture (Dugan Realty LLC) in which we have a 50% interest and recognized a net gain of \$35.2 million. This transaction expanded an existing joint venture with an institutional real estate investor. As a result of the total transactions, we received \$363.9 million of proceeds. The joint venture partially financed this transaction with \$350

million of secured mortgage debt, the repayment of which we directly or indirectly guaranteed. The guarantee associated with \$260 million of such debt expired in December 2003 without us being required to satisfy the guarantee. The remaining \$90 million of such debt is still guaranteed by us. In connection with this transaction, the joint venture partners were given an option to put up to a \$50 million interest in the joint venture to us in exchange for our common stock or cash (at our option), subject to certain timing and other restrictions. As a result of this put option, we deferred \$10.2 million of gain on sale of depreciated property and recorded a \$50 million liability.

We have guaranteed the repayment of \$12.3 million of economic development bonds issued by various municipalities in connection with certain commercial developments. We will be required to make payments under our guarantees to the extent that incremental taxes from specified developments are not sufficient to pay the bond debt service. Management does not believe that it is probable that we will be required to make any significant payments in satisfaction of these guarantees.

We have also guaranteed the repayment of a \$2 million mortgage loan encumbering the real estate of one of our unconsolidated joint ventures. Management believes that the value of the real estate exceeds the loan balance and that we will not be required to satisfy this guarantee.

We evaluated our guarantees under FASB Interpretation 45 ("FIN 45") in order to determine the amount of potential liability we may incur resulting from the guarantees. For this evaluation we used discounted cash flow projections for expected incremental financing to be generated from anticipated development. Based upon these projections, no liability was recorded at December 31, 2004.

We have entered into agreements, subject to the completion of due diligence requirements, resolution of certain contingencies and completion of customary closing conditions, for the future acquisition of land totaling \$43.8 million. We have also entered into an agreement to acquire a single building for \$8.0 million, which is expected to close in 2005.

We renewed all of our major insurance policies in 2004. These policies include coverage for acts of terrorism for our properties. We believe that this insurance provides adequate coverage against normal insurance risks and that any loss experienced would not have a significant impact on our liquidity, financial position, or results of operations.

We are subject to various legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of any ultimate liability with respect to these actions will not materially affect our consolidated financial statements or results of operations.

Recent Accounting Pronouncements

In December 2004, FASB issued SFAS No. 123 (R), *Share-Based Payment*, which is a revision of SFAS No. 123, *Accounting for Stock Based Compensation*, and is effective July 2005. We are currently evaluating the impact on our financial position and results of operations.



management's report on internal control

We, as management of Duke Realty Corporation and its subsidiaries ("Duke"), are responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Pursuant to the rules and regulations of the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of, the principal executive and principal financial officers, or persons performing similar functions, and effected by the board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles and includes those policies and procedure that:

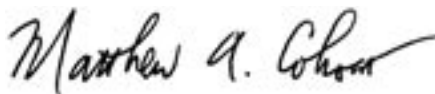
- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Management has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2004, based on the control criteria established in a report entitled Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on such evaluation, we have concluded that, as of December 31, 2004, our internal control over financial reporting is effective based on these criteria.

The independent registered public accounting firm of KPMG LLP, as auditors of Duke's consolidated financial statements, has issued an attestation report on management's assessment of Duke's internal control over financial reporting.



Dennis D. Oklak
President and Chief Executive Officer
(Principal Executive Officer)



Matthew A. Cohoat
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)



report of independent registered public accounting firm

The Shareholders and Directors of Duke Realty Corporation:

We have audited the consolidated balance sheets of Duke Realty Corporation and Subsidiaries (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of operations, cash flows and shareholders' equity for each of the years in the three-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Duke Realty Corporation and Subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Duke Realty Corporation and Subsidiaries' internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28, 2005, expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Indianapolis, Indiana
February 28, 2005



report of independent registered public accounting firm

The Shareholders and Directors of Duke Realty Corporation:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control that Duke Realty Corporation and Subsidiaries maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Duke Realty Corporation and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Duke Realty Corporation and Subsidiaries maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in Internal Control-Integrated Framework issued by COSO. Also, in our opinion, Duke Realty Corporation and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control-Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Duke Realty Corporation and Subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, cash flows and shareholders' equity for each of the years in the three-year period ended December 31, 2004, and our report dated February 28, 2005, expressed an unqualified opinion on those consolidated financial statements.



Indianapolis, Indiana
February 28, 2005



consolidated balance sheets

As of December 31 (in thousands, except per share amounts)	2004	2003
Assets		
Real estate investments:		
Land and improvements	\$ 710,379	\$ 641,544
Buildings and tenant improvements	4,666,715	4,452,624
Construction in progress	109,788	119,441
Investments in unconsolidated companies	287,554	295,837
Land held for development	393,650	314,996
	<u>6,168,086</u>	<u>5,824,442</u>
Accumulated depreciation	(788,900)	(677,357)
Net real estate investments	5,379,186	5,147,085
Cash and cash equivalents	5,589	12,632
Accounts receivable, net of allowance of \$1,238 and \$1,524	17,127	17,121
Straight-line rent receivable, net of allowance of \$1,646 and \$2,146	89,497	70,143
Receivables on construction contracts, including retentions	59,342	44,905
Deferred financing costs, net of accumulated amortization of \$9,006 and \$10,703	31,924	13,421
Deferred leasing and other costs, net of accumulated amortization of \$88,888 and \$67,317	203,882	158,562
Escrow deposits and other assets	110,096	97,380
	<u>\$5,896,643</u>	<u>\$5,561,249</u>
Liabilities and Shareholders' Equity		
Indebtedness:		
Secured debt	\$ 203,081	\$ 208,649
Unsecured notes	2,315,623	1,775,887
Unsecured line of credit	–	351,000
	<u>2,518,704</u>	<u>2,335,536</u>
Construction payables and amounts due subcontractors, including retentions	67,740	60,789
Accounts payable	526	2,268
Accrued expenses:		
Real estate taxes	55,748	52,958
Interest	36,531	33,259
Other	50,814	51,808
Other liabilities	105,771	107,113
Tenant security deposits and prepaid rents	39,827	37,975
Total liabilities	<u>2,875,661</u>	<u>2,681,706</u>
Minority interest	195,113	212,794
Shareholders' equity:		
Preferred shares (\$.01 par value); 5,000 shares authorized; 2,365 and 1,898 shares issued and outstanding	657,250	540,508
Common shares (\$.01 par value); 250,000 shares authorized; 142,894 and 136,594 shares issued and outstanding	1,429	1,366
Additional paid-in capital	2,538,461	2,379,817
Accumulated other comprehensive income (loss)	(6,547)	–
Distributions in excess of net income	(364,724)	(254,942)
Total shareholders' equity	<u>2,825,869</u>	<u>2,666,749</u>
	<u>\$5,896,643</u>	<u>\$5,561,249</u>

See accompanying Notes to Consolidated Financial Statements.



consolidated statements of operations

For the Years Ended December 31 (in thousands, except per share amounts)	2004	2003	2002
Rental Operations:			
Revenues:			
Rental income from continuing operations	\$744,065	\$689,343	\$652,827
Equity in earnings of unconsolidated companies	21,586	23,688	27,180
	<u>765,651</u>	<u>713,031</u>	<u>680,007</u>
Operating expenses:			
Rental expenses	156,070	141,226	122,450
Real estate taxes	84,802	77,150	69,791
Interest expense	135,130	125,696	111,411
Depreciation and amortization	224,649	188,015	166,059
	<u>600,651</u>	<u>532,087</u>	<u>469,711</u>
Earnings from continuing rental operations	<u>165,000</u>	<u>180,944</u>	<u>210,296</u>
Service Operations:			
Revenues:			
General contractor gross revenue	357,133	286,689	194,439
General contractor costs	(329,545)	(259,930)	(172,559)
Net general contractor revenue	27,588	26,759	21,880
Property management, maintenance and leasing fees	15,000	14,731	14,301
Construction management and development activity income	25,002	15,486	29,428
Other income	3,213	2,480	2,971
Total revenue	<u>70,803</u>	<u>59,456</u>	<u>68,580</u>
Operating expenses	<u>46,382</u>	<u>37,635</u>	<u>38,310</u>
Earnings from service operations	<u>24,421</u>	<u>21,821</u>	<u>30,270</u>
General and administrative expense	<u>(26,390)</u>	<u>(22,127)</u>	<u>(25,291)</u>
Operating income	<u>163,031</u>	<u>180,638</u>	<u>215,275</u>
Other Income (Expense):			
Interest income	5,213	3,613	3,860
Earnings from sale of land, depreciable property and ownership interests in unconsolidated companies, net of impairment adjustment	10,202	15,752	7,292
Other revenue (expense)	(567)	(734)	182
Other minority interest in earnings of subsidiaries	(1,253)	(586)	(1,093)
Minority interest in earnings of common unitholders	(13,425)	(15,593)	(17,009)
Minority interest in earnings of preferred unitholders	–	(1,904)	(7,560)
Income from continuing operations	<u>163,201</u>	<u>181,186</u>	<u>200,947</u>
Discontinued operations:			
Net income from discontinued operations, net of minority interest	1,602	6,294	10,676
Gain (loss) on sale of discontinued operations, net of impairment adjustment and minority interest	23,898	11,752	(4,456)
Income from discontinued operations	<u>25,500</u>	<u>18,046</u>	<u>6,220</u>
Net income	<u>188,701</u>	<u>199,232</u>	<u>207,167</u>
Dividends on preferred shares	(33,777)	(37,321)	(45,053)
Adjustments for redemption of preferred stock	(3,645)	–	(8,145)
Net income available for common shareholders	<u>\$151,279</u>	<u>\$161,911</u>	<u>\$153,969</u>
Basic net income per common share:			
Continuing operations	\$.89	\$ 1.06	\$ 1.10
Discontinued operations	.18	.13	.05
Total	<u>\$ 1.07</u>	<u>\$ 1.19</u>	<u>\$ 1.15</u>
Diluted net income per common share:			
Continuing operations	\$.88	\$ 1.06	\$ 1.09
Discontinued operations	.18	.13	.05
Total	<u>\$ 1.06</u>	<u>\$ 1.19</u>	<u>\$ 1.14</u>
Weighted average number of common shares outstanding	<u>141,379</u>	<u>135,595</u>	<u>133,981</u>
Weighted average number of common and dilutive potential common shares	<u>157,062</u>	<u>151,141</u>	<u>150,839</u>

See accompanying Notes to Consolidated Financial Statements.



consolidated statements of cash flows

For the Years Ended December 31 (in thousands)	2004	2003	2002
Cash flows from operating activities:			
Net income	\$188,701	\$199,232	\$207,167
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of buildings and tenant improvements	189,119	168,959	154,565
Amortization of deferred leasing and other costs	39,463	27,275	21,056
Amortization of deferred financing costs	4,904	3,626	3,725
Minority interest in earnings	17,184	20,036	26,377
Straight-line rent adjustment	(22,436)	(22,387)	(12,500)
Earnings from land and depreciated property sales	(36,449)	(28,776)	(1,048)
Build-for-sale operations, net	(41)	(20,899)	168,199
Construction contracts, net	(11,047)	(3,210)	(11,656)
Other accrued revenues and expenses, net	(1,070)	15,989	9,136
Operating distributions received in excess of equity in earnings from unconsolidated companies	10,447	8,783	4,575
Net cash provided by operating activities	378,775	368,628	569,596
Cash flows from investing activities:			
Development of real estate investments	(145,629)	(129,199)	(158,131)
Acquisition of real estate investments	(204,361)	(201,819)	(98,062)
Acquisition of land held for development and infrastructure costs	(116,669)	(32,944)	(27,467)
Recurring tenant improvements	(58,847)	(35,972)	(28,011)
Recurring leasing costs	(27,777)	(20,932)	(17,975)
Recurring building improvements	(21,029)	(19,544)	(13,373)
Other deferred leasing costs	(16,386)	(17,167)	(18,219)
Other deferred costs and other assets	(15,055)	(25,264)	(17,790)
Proceeds from land and depreciated property sales, net	178,301	167,626	52,186
Advances to unconsolidated companies	(3,033)	(5,481)	(11,130)
Net cash used for investing activities	(430,485)	(320,696)	(337,972)
Cash flows from financing activities:			
Proceeds from issuance of common shares, net	12,259	14,026	22,834
Proceeds from issuance of preferred shares, net	338,360	96,700	–
Payments for redemption of preferred shares	(102,652)	(20)	(167,953)
Redemption of warrants	(2,881)	(4,692)	–
Proceeds from unsecured debt issuance	690,000	425,000	200,000
Payments on unsecured debt	(150,000)	(175,000)	–
Proceeds from debt refinancing	–	38,340	–
Proceeds from issuance of secured debt	–	40,000	–
Payments on secured indebtedness including principal amortization	(39,430)	(143,542)	(71,953)
Borrowings (payments) on lines of credit, net	(351,000)	46,105	157,305
Payment for redemption of preferred units	–	(65,000)	(35,000)
Distributions to common shareholders	(261,061)	(248,100)	(242,475)
Distributions to preferred shareholders	(31,828)	(37,321)	(47,053)
Distributions to preferred unitholders	–	(4,859)	(7,560)
Distributions to minority interest	(26,941)	(28,484)	(28,575)
Deferred financing costs	(30,159)	(5,867)	(3,263)
Net cash provided by (used for) financing activities	44,667	(52,714)	(223,693)
Net increase (decrease) in cash and cash equivalents	(7,043)	(4,782)	7,931
Cash and cash equivalents at beginning of year	12,632	17,414	9,483
Cash and cash equivalents at end of year	\$ 5,589	\$ 12,632	\$ 17,414
Other non-cash items:			
Assumption of debt for real estate acquisitions	\$ 29,854	\$ –	\$ 9,566
Contributions of property to unconsolidated companies	\$ –	\$ 5,009	\$ –
Conversion of Limited Partner Units to common shares	\$ 25,376	\$ 26,546	\$ 60,509
Conversion of Series D Preferred Shares to common shares	\$130,665	\$ –	\$ –
Issuance of Limited Partner Units for real estate acquisitions	\$ 7,575	\$ 3,187	\$ 4,686
Transfer of debt in sale of depreciated property	\$ –	\$ –	\$ 2,432
Acquisition of partners' interest in unconsolidated companies	\$ –	\$ 20,630	\$ 12,149

See accompanying Notes to Consolidated Financial Statements.



consolidated statements of shareholders' equity

(in thousands, except per share data)	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Compre- hensive Income	Distributions In Excess of Net Income	Total
Balance at December 31, 2001	\$608,664	\$1,314	\$2,253,784	\$ (192)	\$ (78,247)	\$2,785,323
Comprehensive Income:						
Net income	—	—	—	—	207,167	207,167
Distributions to preferred shareholders	—	—	—	—	(47,053)	(47,053)
Adjustment for carrying value of preferred stock redemptions	—	—	8,145	—	(8,145)	—
Gains (losses) on derivative instruments	—	—	—	(1,919)	—	(1,919)
Comprehensive income available for common shareholders						158,195
Issuance of common shares	—	12	22,855	—	—	22,867
Acquisition of minority interest	—	24	60,485	—	—	60,509
Repurchase of Series D Preferred shares	(25)	—	—	—	—	(25)
Redemption of Series B Preferred shares	(17,750)	—	(178)	—	—	(17,928)
Redemption of Series F Preferred shares	(150,000)	—	—	—	—	(150,000)
Tax benefits from employee stock plans	—	—	856	—	—	856
FASB 123 compensation expense	—	—	224	—	—	224
Retirement of common shares	—	—	(210)	—	—	(210)
Distributions to common shareholders (\$1.81 per share)	—	—	—	—	(242,475)	(242,475)
Balance at December 31, 2002	\$440,889	\$1,350	\$2,345,961	\$(2,111)	\$(168,753)	\$2,617,336
Comprehensive Income:						
Net income	—	—	—	—	199,232	199,232
Distributions to preferred shareholders	—	—	—	—	(37,321)	(37,321)
Gains (losses) on derivative instruments	—	—	—	2,111	—	2,111
Comprehensive income available for common shareholders						164,022
Issuance of common shares	—	7	14,253	—	—	14,260
Issuance of preferred shares	100,000	—	(3,300)	—	—	96,700
Acquisition of minority interest	—	9	26,537	—	—	26,546
Repurchase of Series D Preferred shares	(20)	—	—	—	—	(20)
Conversion of Series D Preferred shares	(361)	—	361	—	—	—
Redemption of Warrants	—	—	(4,692)	—	—	(4,692)
Tax benefits from employee stock plans	—	—	542	—	—	542
FASB 123 compensation expense	—	—	155	—	—	155
Distributions to common shareholders (\$1.83 per share)	—	—	—	—	(248,100)	(248,100)
Balance at December 31, 2003	\$540,508	\$1,366	\$2,379,817	\$ —	\$(254,942)	\$2,666,749
Comprehensive Income:						
Net income	—	—	—	—	188,701	188,701
Distributions to preferred shareholders	—	—	—	—	(33,777)	(33,777)
Adjustment for carrying value of preferred stock redemption	—	—	3,645	—	(3,645)	—
Gains (losses) on derivative instruments	—	—	—	(6,547)	—	(6,547)
Comprehensive income available for common shareholders						148,377
Issuance of common shares	—	6	12,361	—	—	12,367
Issuance of preferred shares	350,000	—	(11,688)	—	—	338,312
Acquisition of minority interest	—	8	25,368	—	—	25,376
Conversion of Series D Preferred Shares	(130,665)	49	130,616	—	—	—
Redemption of Series D Preferred Shares	(2,593)	—	(30)	—	—	(2,623)
Redemption of Series E Preferred Shares	(100,000)	—	(29)	—	—	(100,029)
Exercise of Warrants	—	—	(2,881)	—	—	(2,881)
Tax benefits from employee stock plans	—	—	770	—	—	770
FASB 123 compensation expense	—	—	512	—	—	512
Distributions to common shareholders (\$1.85 per share)	—	—	—	—	(261,061)	(261,061)
Balance at December 31, 2004	\$657,250	\$1,429	\$2,538,461	\$(6,547)	\$(364,724)	\$2,825,869

See accompanying Notes to Consolidated Financial Statements.



1—The Company

Our rental operations are conducted through Duke Realty Limited Partnership (“DRLP”). We owned approximately 91.3% of the common partnership interests of DRLP (“Units”) at December 31, 2004. The remaining Units in DRLP are redeemable for shares of our common stock. We conduct Service Operations through Duke Realty Services Limited Partnership (“DRSLP”), in which we are the sole general partner. We also conduct Service Operations through Duke Construction Limited Partnership (“DCLP”), which is effectively 100% owned by DRLP. The consolidated financial statements include our accounts and our majority-owned or controlled subsidiaries.

2—Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include our accounts and our controlled subsidiaries. The equity interests in these controlled subsidiaries not owned by us are reflected as minority interests in the consolidated financial statements. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements. Investments in entities that we do not control through majority voting interest or where the other owner has substantial participating rights are not consolidated and are reflected as investments in unconsolidated companies under the equity method of reporting.

Reclassifications

Certain 2003 and 2002 balances have been reclassified to conform to the 2004 presentation.

Real Estate Investments

Rental real property, including land, land improvements, buildings and building improvements, are included in real estate investments and are generally stated at cost. Buildings and land improvements are depreciated on the straight-line method over their estimated life not to exceed 40 and 15 years, respectively, and tenant improvement costs are depreciated using the straight-line method over the term of the related lease.

Direct and certain indirect costs clearly associated and incremental to the development, construction, leasing or expansion of real estate investments are capitalized as a cost of the property. In addition, all leasing commissions paid to third parties for new leases or lease renewals are capitalized. We capitalize a portion of our indirect costs associated with our construction/development and leasing efforts. In assessing the amount of direct and indirect costs to be capitalized, allocations are made based on estimates of the actual amount of time spent in each activity. The capitalized cost pool does not include any costs allocable to its executive officers. Additionally, we do not capitalize any costs attributable to downtime or to unsuccessful projects of leasing activities.

Within our Rental Operations, direct and indirect costs are capitalized under the guidelines of Statement of Financial

Accounting Standard (“SFAS”) No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects* (“SFAS 67”), and interest costs are capitalized under the guidelines of SFAS No. 34, *Capitalization of Interest Cost* (“SFAS 34”). The Company capitalizes these project costs associated with the initial construction of a property up to the time the property is substantially complete and ready for its intended use. In addition, the Company capitalizes costs, including real estate taxes, insurance, and utilities, that have been allocated to vacant space based on the square footage of the portion of the building not held available for immediate occupancy during the extended lease-up periods after construction of the building shell has been completed if costs are being incurred to ready the vacant space for its intended use. If costs and activities incurred to ready the vacant space cease, then cost capitalization is also discontinued until such activities are resumed. Once necessary work has been completed on a vacant space, project costs are no longer capitalized. We cease capitalization of all project costs on extended lease-up periods after the shorter of a one-year period after the completion of the building shell or when the property attains 90% occupancy. Tenant improvement costs are generally not incurred on vacant space until a lease is signed and specific improvements are identified in the lease.

Construction in process and land held for development are included in real estate investments and are stated at cost. Real estate investments also include our equity interests in unconsolidated joint ventures that own and operate rental properties and hold land for development. We analyze our investments in joint ventures under Financial Accounting Standards Board (“FASB”) Interpretation No. 46 (R), *Consolidation of Variable Interest Entities*, to determine if the joint venture is considered a variable interest entity and would require consolidation. The equity method of accounting is used for these investments in which we have the ability to exercise significant influence, but not control, over operating and financial policies. Any difference between the carrying amount of these investments and the underlying equity in net assets is amortized to equity in earnings of unconsolidated companies over the depreciable life of the property, generally 40 years.

We adopted SFAS No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets* (“SFAS 144”), in 2002. In accordance with this statement, properties held for rental are individually evaluated for impairment when conditions exist which may indicate that it is probable that the sum of expected future cash flows (on an undiscounted basis) from a rental property over its anticipated holding period is less than its historical net cost basis. Upon determination that a permanent impairment has occurred, a loss is recorded to reduce the net book value of that property to its fair market value. Real properties to be disposed of are reported at the lower of net historical cost basis or the estimated fair market value, less the estimated costs to sell. Once a property is designated as held for disposal, no further depreciation expense is recorded.



In accordance with SFAS No. 141, *Business Combinations* ("SFAS 141"), we allocate the purchase price of acquired properties to net tangible and identified intangible assets based on their respective fair values. The allocation to tangible assets (buildings, tenant improvements and land) is based upon management's determination of the value of the property as if it were vacant using discounted cash flow models similar to those used by independent appraisers. Factors considered by management include an estimate of carrying costs during the expected lease-up periods considering current market conditions, and costs to execute similar leases. The remaining purchase price is allocated among three categories of intangible assets consisting of the above or below market component of in-place leases, the value of in-place leases and the value of customer relationships.

The value allocable to the above or below market component of an acquired in-place lease is determined based upon the present value (using a discount rate which reflects the risks associated with the acquired leases) of the difference between (i) the contractual amounts to be paid pursuant to the lease over its remaining term and (ii) management's estimate of the amounts that would be paid using fair market rates over the remaining term of the lease. The amounts allocated to above or below market leases are included in deferred leasing and other costs in the balance sheet and are amortized to rental income over the remaining terms of the respective leases.

The total amount of intangible assets is further allocated to in-place lease values and to customer relationship values based upon management's assessment of their respective values. These intangible assets are included in deferred leasing and other costs in the balance sheet and are depreciated over the remaining term of the existing lease, or the anticipated life of the customer relationship, as applicable.

Cash Equivalents

Highly liquid investments with a maturity of three months or less when purchased are classified as cash equivalents.

Valuation of Receivables

We reserve the entire receivable balance, including straight-line rent, of any tenant with an amount outstanding over 90 days. Straight-line rent receivables for any tenant with long-term risk, regardless of the status of rent receivables, are reviewed and reserved as necessary.

Deferred Costs

Costs incurred in connection with obtaining financing are amortized to interest expense on the straight-line method, which approximates a constant spread over the term of the related loan. All direct and indirect costs, including estimated internal costs, associated with the leasing of real estate investments owned by us are capitalized and amortized over the term of the related lease. Unamortized costs are charged to expense upon the early termination of the lease or upon early payment of the financing.

Revenues

Rental Operations

Rental income from leases with scheduled rental increases during their terms is recognized on a straight-line basis.

Service Operations

Management fees are based on a percentage of rental receipts of properties managed and are recognized as the rental receipts are collected. Maintenance fees are based upon established hourly rates and are recognized as the services are performed. Construction management and development fees represent fee based third party contracts and are recognized as earned based on the terms of the contract, which approximates the percentage of completion method.

We recognize income on construction contracts where we serve as a general contractor on the percentage of completion method. Using this method, profits are recorded based on our estimates of the percentage of completion of individual contracts, commencing when the work performed under the contracts reach a point where the final costs can be estimated with reasonable accuracy. The percentage of completion estimates are based on a comparison of the contract expenditures incurred to the estimated final costs. Changes in job performance, job conditions and estimated profitability may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

Property Sales

Gains from sales of depreciated property are recognized in accordance with SFAS No. 66, *Accounting for Sales of Real Estate* ("SFAS 66"), and are included in earnings from sales of land and depreciable property dispositions, net of any impairment adjustments, in the Statement of Operations if identified as held-for-sale prior to adoption of SFAS 144 and in discontinued operations if identified as held-for-sale after adoption of SFAS 144.

Gains or losses to our sale of property that were developed with the intent to sell and not for long-term rental are recognized in accordance with SFAS 66 and are included in construction management and development activity income in the Statement of Operations.

Net Income Per Common Share

Basic net income per common share is computed by dividing net income available for common shares by the weighted average number of common shares outstanding for the period. Diluted net income per common share is computed by dividing the sum of net income available for common shareholders and the minority interest in earnings allocable to Units not owned by us, by the sum of the weighted average number of common shares and minority Units outstanding, including any dilutive potential common shares for the period.

The following table reconciles the components of basic and diluted net income per common share (in thousands):



	2004	2003	2002
Basic net income available for common shares	\$151,279	\$161,911	\$153,969
Minority interest in earnings of common unitholders	14,966	17,546	17,726
Diluted net income available for common shares	\$166,245	\$179,457	\$171,695
Weighted average number of common shares outstanding	141,379	135,595	133,981
Weighted average partnership units outstanding	13,902	14,685	15,442
Weighted average conversion of Series D preferred shares ⁽¹⁾	877	–	–
Dilutive shares for stock-based compensation plans	904	861	1,416
Weighted average number of common shares and dilutive potential common shares	157,062	151,141	150,839

⁽¹⁾ We called for the redemption of the Series D shares as of March 16, 2004. Prior to the redemption date, nearly 5.3 million Series D shares were converted to 4.9 million common shares. These shares represent the weighted effect, assuming the Series D shares had been converted on January 1, 2004.

The Series D Convertible Preferred Stock was anti-dilutive for the years ended December 31, 2003 and 2002; therefore, no conversion to common shares was included in weighted average dilutive potential common shares.

A joint venture partner in one of our unconsolidated companies has the option to convert a portion of its ownership to our common shares. The effect of this option on earnings per share was anti-dilutive for the years ended December 31, 2004, 2003 and 2002.

Federal Income Taxes

We have elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement to distribute at least 90% of our adjusted taxable income to our stockholders. Management intends to continue to adhere to these requirements and to maintain our REIT status. As a REIT, we are entitled to a tax deduction for some or all of the

dividends we pay to shareholders. Accordingly, we generally will not be subject to federal income taxes as long as we distribute an amount equal to or in excess of our taxable income currently to stockholders. A REIT generally is subject to federal income taxes on any taxable income that is not currently distributed to its shareholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income taxes and may not be able to qualify as a REIT for four subsequent taxable years.

REIT qualification reduces, but does not eliminate, the amount of state and local taxes we pay. In addition, our financial statements include the operations of taxable corporate subsidiaries that are not entitled to a dividends paid deduction and are subject to corporate federal, state and local income taxes. As a REIT, we may also be subject to certain federal excise taxes if we engage in certain types of transactions.

The following table reconciles our net income to taxable income before the dividends paid deduction for the years ended December 31, 2004, 2003 and 2002 (in thousands):

	2004	2003	2002
Net income	\$188,701	\$199,232	\$207,167
Book/tax differences	53,817	35,082	26,856
Taxable income before adjustments	242,518	234,314	234,023
Less: capital gains	(38,655)	(32,009)	(4,203)
Adjusted taxable income subject to 90% dividend requirement	\$203,863	\$202,305	\$229,820

Our dividends paid deduction is summarized below (in thousands):

	2004	2003	2002
Cash dividends paid	\$292,889	\$284,868	\$289,528
Less: Capital gains distribution	(38,655)	(32,009)	(4,203)
Less: Return of capital	(46,694)	(46,637)	(50,425)
Total dividends paid deduction attributable to adjusted taxable income	\$207,540	\$206,222	\$234,900



notes to consolidated financial statements

A summary of the tax characterization of the dividends paid for the years ended December 31, 2004, 2003 and 2002 follows:

	2004	2003	2002
Common Shares			
Ordinary income	69.3%	69.7%	78.2%
Return of capital	17.5%	19.1%	20.5%
Capital gains	13.2%	11.2%	1.3%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Preferred Shares			
Ordinary income	86.8%	88.8%	98.7%
Capital gains	13.2%	11.2%	1.3%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

We recorded federal and state income taxes of \$5.2 million, \$4.0 million and \$12.0 million for 2004, 2003 and 2002, respectively, which were primarily attributable to the earnings of our taxable REIT subsidiaries. The taxable REIT subsidiaries had no significant deferred income tax items.

Stock Based Compensation

We apply the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations in accounting, for all stock based awards issued prior to 2002. Accordingly, for stock options granted prior to 2002, no compensation expense is reflected in net income as all options granted had an exercise price equal to the market value of the underlying common stock

on the date of the grant.

In 2002, we prospectively adopted the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), for all awards granted after January 1, 2002.

Awards under our stock based employee compensation plans generally vest over five years at 20% per year. Therefore, the expense related to these plans is less than that which would have been recognized if the fair value method had been applied to all awards since the original effective date of SFAS 123. The following table illustrates the effect on net income and earnings per share if the fair value method had been applied to all outstanding and unvested awards in each period (in thousands, except per share amounts).

	2004	2003	2002
Net income, as reported	\$151,279	\$161,911	\$153,969
Add: Stock-based employee compensation expense included in net income determined under fair value method	455	155	224
Deduct: Total stock based compensation expense determined under fair value method for all awards	(923)	(778)	(1,153)
Proforma Net Income	<u>\$150,811</u>	<u>\$161,288</u>	<u>\$153,040</u>
Basic net income per share			
As reported	\$ 1.07	\$ 1.19	\$ 1.15
Pro forma	\$ 1.07	\$ 1.19	\$ 1.14
Diluted net income per share			
As reported	\$ 1.06	\$ 1.19	\$ 1.14
Pro forma	\$ 1.06	\$ 1.18	\$ 1.13

Derivative Financial Instruments

We periodically enter into certain interest rate protection agreements to effectively convert or cap floating rate debt to a fixed rate, and to hedge anticipated future financing transactions. Net amounts paid or received under these agreements are recognized as an adjustment to the interest expense of the corresponding debt. We do not utilize derivative financial instruments for trading or speculative purposes.

SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities*, as amended ("SFAS 133"), requires that all derivative instruments be recorded on the balance sheet as assets or liabilities at their fair value. Derivatives that are not hedges must be adjusted to fair value through the recording of income or expense. If a derivative qualifies as a hedge, the changes in fair value of the effective portion

of the hedge are recognized in other comprehensive income, while the ineffective portion of the derivative's change in fair value is recognized in earnings. We estimate the fair value of derivative instruments using standard market conventions and techniques such as discounted cash flow analysis, option pricing models and termination cost at each balance sheet date.

Use Of Estimates

The preparation of the financial statements requires management to make a number of estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.



3. Related Party Transactions

We provide property management, leasing, construction and other tenant related services to properties in which former executive officers and current directors have ownership interests. We received fees totaling approximately \$693,000, \$1.2 million, and \$1.4 million in 2004, 2003 and 2002, respectively, for services provided to these properties. The fees we charged for such services are equivalent to those charged to unrelated third-party owners for similar services. We had an option to acquire the executive officers' interests in these properties. Two of these properties, the Bank One Towers office buildings in Cincinnati, Ohio, were acquired in August 2003 at a price of \$45.5 million. The terms of this acquisition were reviewed and approved by the independent members of our Board of Directors. The options on the remaining properties expired in October 2003, as the independent members of our Board of Directors determined that it was not in our best interests to exercise the options.

We provide property management, leasing, construction and other tenant related services to unconsolidated companies in which we have an equity interest. For each of the years ended December 31, 2004, 2003 and 2002, we received management fees of \$4.9 million from these unconsolidated companies. In addition, for each of the years

ended December 31, 2004, 2003 and 2002, respectively, we received from these entities leasing fees of \$2.6 million, \$2.3 million and \$2.5 million and construction and development fees of \$1.5 million, \$1.4 million and \$4.5 million. These fees were charged at market rates and we eliminated our ownership percentage of these fees in the consolidated financial statements.

In 2002, we received lease termination fees totaling \$7.7 million from a tenant that is a subsidiary of Progress Energy, Inc. At that time, William Cavanaugh III was President and Chief Executive Officer of Progress Energy, Inc. and a member of our Board of Directors. Our independent directors approved the transaction and management believes that the amount received approximates a value that would have been charged to tenants with similar lease terms and commitments.

4. Investments in Unconsolidated Companies

We have equity interests ranging from 10% — 64% in unconsolidated joint ventures that own and operate rental properties and hold land for development.

Combined summarized financial information for the unconsolidated companies as of December 31, 2004 and 2003, and for the years ended December 31, 2004, 2003, and 2002, are as follows (in thousands):

	2004	2003	2002
Rental revenue	\$ 167,803	\$ 170,227	\$ 169,683
Net income	\$ 40,138	\$ 41,065	\$ 51,013
Earnings distributions received	\$ 30,309	\$ 30,844	\$ 29,238
Land, buildings and tenant improvements, net	\$1,158,068	\$1,173,232	
Land held for development	50,173	51,328	
Other assets	62,190	62,196	
	<u>\$1,270,431</u>	<u>\$1,286,756</u>	
Property indebtedness	\$ 570,941	\$ 577,732	
Other liabilities	51,377	41,691	
	<u>622,318</u>	<u>619,423</u>	
Owners' equity	<u>648,113</u>	<u>667,333</u>	
	<u>\$1,270,431</u>	<u>\$1,286,756</u>	

Our share of the scheduled payments of long term debt for the unconsolidated joint ventures for each of the next five years and thereafter as of December 31, 2004, are as follows (in thousands):

Year	Future Repayments
2005	\$ 31,713
2006	13,740
2007	62,254
2008	1,507
2009	70,473
Thereafter	104,595
	<u>\$ 284,282</u>

The following significant transactions involving the unconsolidated companies have occurred over the past three years:

During 2003, we purchased our partners' interests in three separate joint ventures. We had a 50% interest in each of these ventures prior to their acquisition. We also sold our 50% interest in two separate joint ventures to our partners. In addition, we contributed cash and undeveloped land to a joint venture that owns undeveloped land and an office building in return for a 50% interest.

In 2002, we recognized a gain of \$1.8 million on the sale of a building that was developed for sale by a joint venture in which we owned a 50% interest. The gain was included in equity in earnings in the Statement of Operations. We also bought out our other partners' interest in six separate joint ventures. We had a 50% interest in each of these ventures prior to such acquisitions.



5. Real Estate Investments

We have classified operations of 86 buildings as discontinued operations as of December 31, 2004. These 86 buildings consist of 69 industrial, 12 office and five retail properties. As a result, we classified net income, net of minority interest, of \$1.6 million, \$6.3 million and \$10.7 million as net income from discontinued operations for the years ended December 31, 2004, 2003 and 2002, respectively. Forty-one of these properties were sold during 2004, 42 properties were sold during 2003, two properties were sold during 2002 and one operating property is classified as held-for-sale at December 31, 2004. The gains on disposal of these properties, net

of impairment adjustment and minority interest, of \$23.9 million, \$11.7 million for the years ended December 31, 2004 and 2003, respectively, are also reported in discontinued operations. For the year ended December 31, 2002, a \$4.5 million loss on disposal of properties, net of impairment adjustment and minority interest, is reported in discontinued operations due to impairment charges of \$7.7 million recorded on three properties in 2002 that were later sold in 2003 and 2004.

The following table illustrates the major classes of assets and operations affected by the 86 buildings identified as discontinued operations at December 31, 2004 (in thousands):

	2004	2003	2002
Statement of Operations:			
Revenues	\$ 11,916	\$ 29,874	\$ 37,700
Expenses:			
Operating	3,703	8,831	9,296
Interest	2,479	5,810	6,872
Depreciation and Amortization	3,933	8,219	9,562
General and Administrative	42	41	63
Operating Income	1,759	6,973	11,907
Other Income	–	2	(1)
Minority interest expense – operating and other income	(157)	(681)	(1,230)
Income from discontinued operations, before gain on sale	1,602	6,294	10,676
Gain (loss) on sale of property, net of impairment adjustment	26,247	13,024	(4,969)
Minority interest expense – gain on sales	(2,349)	(1,272)	513
Income from discontinued operations	\$ 25,500	\$ 18,046	\$ 6,220
Balance Sheet:			
Real estate investments, net	\$ 3,358		
Other Assets	1,195		
Total Assets	\$ 4,553		
Accrued Expenses	\$ 18		
Other Liabilities	38		
Equity and minority interest	4,497		
Total Liabilities and Equity	\$ 4,553		

We allocate interest expense to discontinued operations as permitted under EITF 87-24, “Allocation of Interest to Discontinued Operations,” and have included such interest expense in computing net income from discontinued operations. Interest expense allocable to discontinued operations includes interest on the debt for the secured properties and an allocable share of our consolidated unsecured interest expense for unencumbered properties. The allocation of unsecured interest expense to discontinued operations was based upon the Gross Book Value of the discontinued operations unencumbered population as it related to our entire unencumbered population.

At December 31, 2004, we had one industrial property comprising approximately 81,000 square feet classified as held-for-sale. The net book value of the property held-for-sale at December 31, 2004, was approximately \$3.4 million.

In 2004 we recorded \$424,000 of impairment adjustments for three land parcels that were held-for-sale. We also recorded a \$180,000 impairment adjustment for the industrial building classified as held-for-sale at December 31, 2004. These adjustments reflect the write-down of the

carrying values of the properties to their projected sales prices, less selling expenses, once it became probable that the properties would be sold. The industrial building is projected to sell in the first quarter of 2005. Each of the land parcel properties were later sold in 2004.

In 2003 we recorded \$1.1 million of impairment adjustments for one industrial building and three land parcels that were held-for-sale. These adjustments reflect the write-down of the carrying values of the properties to their projected sales prices, less selling expenses, once it became probable that the properties would be sold. Each of these properties was later sold in 2003.

We recorded a \$9.4 million impairment adjustment for six properties in 2002. This total consisted of a \$7.7 million adjustment for three industrial properties and a \$1.7 million adjustment for three office properties. The properties were identified as impaired upon the comparison of their projected undiscounted cash flows to their carrying values. The impairment adjustment reflects the write-down of the carrying values of the properties to their estimated fair market value. In estimating fair market value, management



considers valuations factors used by independent appraisers, including the sales of comparable properties, replacement

cost and the capitalization of future expected net operating income.

6. Indebtedness

Indebtedness at December 31 consists of the following (in thousands):

	2004	2003
Fixed rate secured debt, weighted average interest rate of 6.51% at December 31, 2004, and 6.94% at December 31, 2003, maturity dates ranging from 2005 to 2017	\$ 163,607	\$ 153,460
Variable rate secured debt, weighted average interest rate of 3.43% at December 31, 2004, and 2.42% at December 31, 2003, maturity dates ranging from 2006 to 2025	39,474	55,189
Fixed rate unsecured notes, weighted average interest rate of 6.02% at December 31, 2004, and 6.41% at December 31, 2003, maturity dates ranging from 2005 to 2028	2,065,623	1,775,887
Unsecured line of credit, facility unused at December 31, 2004, interest rate of 1.77% at December 31, 2003, maturity date 2007	–	351,000
Variable rate unsecured note, interest rate of 2.78% at December 31, 2004, maturity date of 2006	250,000	–
	<u>\$2,518,704</u>	<u>\$ 2,335,536</u>

The fair value of our indebtedness as of December 31, 2004, was \$2.7 billion.

As of December 31, 2004, the \$203.1 million of secured debt was collateralized by rental properties with a carrying

value of \$464.6 million and by letters of credit in the amount of \$14 million.

We had one unsecured line of credit available at December 31, 2004, described as follows (in thousands):

Description	Outstanding Borrowing Capacity	Maturity Date	Interest Rate	at December 31, 2004
Unsecured Line of Credit	\$500,000	January 2007	LIBOR + .60%	\$ –

The stated interest rate under the line is LIBOR plus 60 basis points. However, the facility provides us with an option to obtain borrowings from financial institutions that participate in the line, at rates lower than the stated interest rate, subject to certain restrictions. At December 31, 2004, we were not using this facility.

The line of credit also contains financial covenants that require us to meet defined levels of performance. As of December 31, 2004, we are in compliance with all covenants and expect to remain in compliance for the foreseeable future.

In January 2004, we issued \$125 million of four-year unsecured debt at an effective interest rate of 3.35%

In August 2004, we issued \$250 million of 5.40% unsecured notes due in 2014. The notes were issued as part of an exchange of securities for \$100 million principal amount of our 6.95% unsecured debt due August 2004. The remaining cash proceeds were used to fund costs associated with the offering and exchange of debt, and to reduce amounts outstanding under our unsecured line of credit.

In December 2004, we issued \$250.0 million of unsecured floating rate debt at 26 basis points over LIBOR. The debt matures in 2006, but is callable by us after six months.

At December 31, 2004, the scheduled amortization and maturities of all indebtedness for the next five years and thereafter were as follows (in thousands):

Year	Amount
2005	\$ 279,666
2006	423,504
2007	221,506
2008	265,059
2009	280,867
Thereafter	1,048,102
	<u>\$2,518,704</u>

The amount of interest paid in 2004, 2003 and 2002 was \$136.2 million, \$130.1 million and \$125.9 million, respectively. The amount of interest capitalized in 2004, 2003 and 2002 was \$6.0 million, \$6.7 million and \$13.5 million, respectively.

7. Segment Reporting

We are engaged in four operating segments, the first three of which consist of the ownership and rental of office, industrial and retail real estate investments (collectively, “Rental Operations”). The fourth segment consists of our build-to-suit for sale operations and the providing of various real estate services such as property management, maintenance, leasing, development and construction management to third-party property owners and joint ventures (“Service Operations”). Our reportable segments offer different products or services and are managed separately because each requires different operating strategies and management expertise. There are no material intersegment sales or transfers.

Non-segment revenue consists mainly of equity in earnings of unconsolidated companies. Segment FFO information is calculated by subtracting operating expenses attributable to the applicable segment from segment revenues. Non-segment assets consist of corporate assets including cash, deferred financing costs and investments in unconsolidated



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companies. Interest expense and other non-property specific revenues and expenses are not allocated to individual segments in determining our performance measure.

We assess and measure segment operating results based upon an industry performance measure referred to as Funds From Operations ("FFO"), which management believes is a useful indicator of our operating performance. FFO is used by industry analysts and investors as a supplemental operating performance measure of an equity real estate investment trust ("REIT"). FFO is calculated in accordance with the definition that was adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"). FFO, as defined by NAREIT, represents net

income (loss) determined in accordance with accounting principles generally accepted in the United States of America ("GAAP"), excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated operating 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.

The revenues and FFO for each of the reportable segments for the years ended December 31, 2004, 2003 and 2002, and the assets of each reportable segment as of December 31, 2004 and 2003 are summarized as follows (in thousands):

	2004	2003	2002
Revenues			
Rental Operations:			
Office	\$459,431	\$419,962	\$393,810
Industrial	274,393	259,762	250,391
Retail	4,893	5,863	4,733
Service Operations	70,803	59,456	68,580
Total Segment Revenues	809,520	745,043	717,514
Non-Segment Revenue	26,934	27,444	31,073
Consolidated Revenue from continuing operations	836,454	772,487	748,587
Discontinued Operations	11,916	29,874	38,975
Consolidated Revenue	<u>\$848,370</u>	<u>\$802,361</u>	<u>\$787,562</u>
Funds From Operations			
Rental Operations:			
Office	\$293,572	\$273,055	\$263,135
Industrial	205,470	195,046	193,873
Retail	3,946	4,929	4,128
Services Operations	24,421	21,821	30,270
Total Segment FFO	527,409	494,851	491,406
Non-Segment FFO:			
Interest expense	(135,130)	(125,696)	(111,411)
Interest income	5,213	3,613	3,860
General and administrative expense	(26,390)	(22,127)	(25,291)
Gain on land sales	10,119	7,135	4,478
Impairment charges on depreciable property	(180)	(500)	(9,379)
Other expenses	(363)	(2,796)	(368)
Minority interest in earnings of subsidiaries	(1,253)	(586)	(1,093)
Minority interest in earnings of common unitholders	(13,425)	(15,593)	(17,009)
Minority interest in earnings of preferred unitholders	–	(1,904)	(7,560)
Minority interest share of FFO adjustments	(19,783)	(18,854)	(19,353)
Joint venture FFO	40,488	42,526	44,778
Dividends on preferred shares	(33,777)	(37,321)	(45,053)
Adjustment for redemption of preferred stock	(3,645)	–	(8,145)
Discontinued operations, net of minority interest	3,186	13,241	22,026
Consolidated FFO	352,469	335,989	321,886
Depreciation and amortization on continuing operations	(224,649)	(188,015)	(166,059)
Depreciation and amortization on discontinued operations	(3,933)	(8,219)	(9,562)
Share of joint venture adjustments	(18,901)	(18,839)	(17,598)
Earnings from depreciated property sales and ownership interests in unconsolidated companies on continuing operations	83	8,617	4,491
Earnings from depreciated property sales on discontinued operations	26,427	13,524	1,458
Minority interest share of FFO adjustments	19,783	18,854	19,353
Net income available for common shareholders	<u>\$151,279</u>	<u>\$161,911</u>	<u>\$153,969</u>



December 31,	2004	2003
Assets		
Rental Operations		
Office	\$ 3,128,387	\$ 2,884,834
Industrial	2,211,509	2,177,483
Retail	84,625	47,293
Service Operations	131,218	111,318
Total Segment Assets	5,555,739	5,220,928
Non-Segment Assets	340,904	340,321
Consolidated Assets	<u>\$ 5,896,643</u>	<u>\$ 5,561,249</u>

In addition to revenues and FFO, we also review our recurring capital expenditures in measuring the performance of our individual Rental Operations segments. These recurring capital expenditures consist of tenant improvements, leasing commissions and building improvements. We review these expenditures to determine the costs associated with re-leasing vacant space and maintaining the condition of our properties. Our recurring capital expenditures by segment are summarized as follows for the years ended December 31, 2004, 2003 and 2002, respectively (in thousands):

	2004	2003	2002
Recurring Capital Expenditures			
Office	\$ 68,535	\$44,602	\$31,616
Industrial	39,096	31,711	27,398
Retail	22	135	345
Total	<u>\$107,653</u>	<u>\$76,448</u>	<u>\$59,359</u>

8. Leasing Activity

Future minimum rents due to us under non-cancelable operating leases at December 31, 2004, are as follows (in thousands):

Year	Amount
2005	\$ 567,801
2006	518,136
2007	441,843
2008	358,202
2009	289,451
Thereafter	832,194
	<u>\$ 3,007,627</u>

In addition to minimum rents, certain leases require reimbursements of specified operating expenses that amounted to \$137.9 million, \$130.3 million, and \$121.0 million for the years ended December 31, 2004, 2003 and 2002, respectively.

9. Employee Benefit Plans

We maintain a 401(k) plan for full-time employees. We make matching contributions up to an amount equal to three percent of the employee's salary and may also make annual discretionary contributions. The total expense recognized for this plan was \$1.9 million, \$1.6 million and \$1.7 million for the years ended 2004, 2003 and 2002, respectively.

We make contributions to a contributory health and welfare plan as necessary to fund claims not covered by employee contributions. The total expense we recognized related to this plan was \$7.2 million, \$6.4 million and \$5.4 million for 2004, 2003 and 2002, respectively. These expense amounts include estimates based upon the historical experience of claims incurred but not reported as of year-end.

10. Shareholders' Equity

We periodically access the public equity markets to fund the development and acquisition of additional rental properties or to pay down debt. The proceeds of these offerings are contributed to DRLP in exchange for an additional interest in DRLP.

The following series of preferred stock were outstanding as of December 31, 2004 (in thousands, except percentages):

Description	Shares Outstanding	Dividend Rate	Redemption Date	Liquidation Preference	Convertible
Series B Preferred	265	7.990%	September 30, 2007	\$132,250	No
Series I Preferred	300	8.450%	February 6, 2006	75,000	No
Series J Preferred	400	6.625%	August 29, 2008	100,000	No
Series K Preferred	600	6.500%	February 13, 2009	150,000	No
Series L Preferred	800	6.600%	November 30, 2009	200,000	No

All series of preferred shares require cumulative distributions and have no stated maturity date (although we may redeem them on or following their optional redemption dates).

The Series B, Series I, Series J, Series K and Series L Preferred Stock may be redeemed only at our option, in whole or in part.

We issued \$150 million of Series K Preferred Shares in February 2004 at a dividend rate of 6.50% and \$200 million of Series L Preferred Shares in November 2004 at a dividend rate of 6.60%.

The dividend rate on the Series B Preferred shares increases to 9.99% after September 12, 2012. We repurchased 355,000 shares of the Series B Preferred



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shares in September 2002. The repurchase transaction was initiated by a group of Series B Preferred shareholders who voluntarily approached us with an opportunity for us to buy back these shares before their earliest stated redemption date.

We called for the redemption of our Series D Convertible Preferred Shares as of March 16, 2004. Prior to the redemption date, 5,242,635 Series D Convertible Preferred Shares were converted into 4,911,143 Common Shares. The remaining 103,695 Series D Convertible Preferred Shares outstanding on March 16, 2004 were redeemed.

We redeemed our \$100 million Series E Preferred Shares on January 20, 2004, at par value.

11. Stock Based Compensation

At December 31, 2004, we had nine stock-based employee compensation plans that are described more fully below. We are authorized to issue up to 7,144,711 shares of our common stock under these compensation plans.

Fixed Stock Option Plans

We had options outstanding under six fixed stock option plans as of December 31, 2004. Additional grants may be made under three of those plans.

A summary of the status of our fixed stock option plans as of December 31, 2004, 2003 and 2002 and changes during the years ended on those dates follows:

	2004		2003		2002	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	3,586,360	\$22.65	3,920,198	\$22.09	4,691,659	\$21.12
Granted	506,688	32.49	609,390	25.48	676,038	23.37
Exercised	(728,250)	20.85	(773,625)	21.87	(1,203,534)	18.82
Forfeited	(12,329)	27.20	(169,603)	23.63	(243,965)	22.96
Outstanding, end of year	<u>3,352,469</u>	<u>24.51</u>	<u>3,586,360</u>	<u>22.65</u>	<u>3,920,198</u>	<u>22.09</u>
Options exercisable, end of year	<u>1,844,256</u>		<u>2,014,875</u>		<u>2,297,500</u>	
Weighted-average fair value of options granted during the year	<u>\$ 2.84</u>		<u>\$ 1.81</u>		<u>\$ 2.05</u>	

The fair values of the options were determined using the Black-Scholes option-pricing model with the following assumptions:

	2004	2003	2002
Dividend yield	6.50%	7.25%	7.25%
Volatility	20.0%	20.0%	20.0%
Risk-free interest rate	3.6%	3.2%	4.7%
Expected life	6 years	6 years	6 years

The options outstanding at December 31, 2004, under the fixed stock option plans have a range of exercise prices from \$12.94 to \$34.14 with a weighted average exercise price of \$24.51 and a weighted average remaining contractual life of 6.11 years. The options exercisable at December 31, 2004 have a weighted average exercise price of \$22.55.

Each option's maximum term is ten years. With limited exceptions, options vest at 20% per year, or, if earlier, upon the death, retirement or disability of the optionee or a change in control of the Company.

Performance Based Stock Plans

Performance shares are granted under the 2000 Performance Share Plan, with each performance share economically equivalent to one share of our common stock. The performance shares vest over a five-year period with the vesting percentage for a year dependent upon our attainment of certain predefined levels of earnings growth for such year. The value of vested performance shares are payable

in cash upon the retirement or termination of employment of the participant. At December 31, 2004, plan participants had the right to receive up to 200,726 performance shares, of which 48,760 were vested and 152,002 were contingent upon future earnings achievement.

The amount of compensation cost was based upon the intrinsic value of the vested performance shares at the end of each applicable reporting period. The compensation cost that was charged against income for this plan was \$1.7 million, \$529,000 and \$96,000 for 2004, 2003 and 2002, respectively.

In October 2002, we amended our Shareholder Value Plan ("SVP Plan") and Dividend Increase Unit Plans ("DIU Plans") by requiring that all payouts under these two plans to be in cash only. Payments made under our SVP Plan are based upon our cumulative shareholder return for a three-year period as compared to the cumulative total return of the S&P 500 and the NAREIT Equity REIT Total Return indices. Payments under the DIU Plans are based upon increases in our dividend per common share. The total compensation cost that was charged against income for these two plans was \$2.3 million, \$1.6 million and \$4.6 million for 2004, 2003 and 2002, respectively.



Directors Stock Payment Plan

Under our 1999 Directors' Stock Payment Plan, non-employee members of our board of directors are entitled to 1,600 shares of our common stock per year as partial compensation for services as a board member. The shares are fully vested when issued and we record the value of the shares as an expense. The amount of that expense was \$525,000, \$415,000 and \$274,000 for 2004, 2003 and 2002, respectively.

Employee Stock Purchase Plan

Under our Employee Stock Purchase Plan, employees are entitled to purchase our common stock at a 15% discount through payroll deductions. Under SFAS 123, we are required to record the amount of the discount as compensation expense. The amount of that expense for 2004 and 2003 was \$255,000 and \$219,000, respectively.

12. Financial Instruments

We are exposed to capital market risk, such as changes in interest rates. In order to manage the volatility relating to interest rate risk, we may enter into interest rate hedging arrangements from time to time. We do not utilize derivative financial instruments for trading or speculative purposes. We account for derivative instruments under SFAS 133.

During the first quarter of 2004, we funded a \$65 million note receivable secured by a first mortgage on a portfolio of office properties owned by a third party located in Atlanta, Georgia. The note receivable had a maximum two-year term with an interest rate of 5.5% for the first 6 months and 6.5% thereafter. In order to fund the note receivable, we borrowed \$65 million under a variable interest rate term loan. The loan bears interest at the rate of LIBOR + 75 basis points, has a maturity date of January 2005, and contains two six month renewal options. To hedge our variable interest rate risk on the loan, we entered into two interest rate swaps totaling \$65 million that effectively fixed the rate at 2.184% through maturity. The hedge accounting rules are being used for the swaps, which allow for changes in market value of the swaps to be recorded through Other Comprehensive Income ("OCI") in equity versus the Statement of Operations. In the third quarter of 2004, the \$65 million note receivable was repaid in connection with our acquisition of the properties that secured the note. However, our \$65 million note payable and related interest swaps were not retired. As of December 31, 2004, the fair value of the hedge was \$51,000, which was reflected through an increase in other assets and OCI on our balance sheet.

In June 2004, we simultaneously entered into three forward-starting interest rate swaps aggregating \$144.3 million, which effectively fixed the rate on financing expected in 2004 at 5.346%, plus our credit spread over the swap rate. The swaps qualified for hedge accounting under SFAS 133; therefore, changes in the fair value were recorded in OCI. In August 2004, we settled these three swaps when we issued \$250.0 million of unsecured notes with an effective interest rate of 6.33%, due in 2014. We paid \$6.85 million

to unwind the swaps, which will be amortized from OCI into interest expense over the life of the new 6.33% notes.

In December 2002, we simultaneously entered into two \$50 million forward-starting interest rate swaps as a hedge to effectively fix the rate on unsecured debt financings expected in 2003. Then again in February 2003, we simultaneously entered into two additional \$25 million forward-starting interest rate swaps as a hedge to effectively fix the rate on unsecured debt financings expected in 2003. All four swaps qualified for hedge accounting under SFAS 133; therefore, changes in fair value were recorded in other comprehensive income. In July 2003, we terminated the swaps for a net gain of \$643,000, which is included in other revenue in the Statements of Operations. The swaps were terminated because our capital needs were met through the issuance of the Series J Preferred Stock in lieu of the previously contemplated issuance of debt.

During the year ended December 31, 2002, we recorded a \$1.4 million gain associated with an interest rate contract that did not qualify for hedge accounting. The contract expired on December 30, 2002.

In May 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* ("SFAS 150"). SFAS 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. SFAS 150 is effective for all financial instruments created or modified after May 31, 2003, and otherwise is effective July 1, 2003. We include the operations of one joint venture in our consolidated financial statements. This joint venture is partially owned by unaffiliated parties that have noncontrolling interests. SFAS 150 requires the disclosure of the estimated settlement value of these noncontrolling interests. As of December 31, 2004, the estimated settlement value of the noncontrolling interest in this consolidated joint venture was approximately \$1.0 million as compared to the minority interest asset recorded on our books for this joint venture of \$142,000.

13. Recent Accounting Pronouncements

In December 2004, FASB issued SFAS No. 123 (R), *Share-Based Payment*, which is a revision of SFAS No. 123, *Accounting for Stock Based Compensation* and is effective July 2005. We are currently evaluating the impact on our financial position and results of operations.

14. Commitments and Contingencies

In 1998 and 1999, certain members of management and the Board of Directors purchased \$69 million of common stock in connection with an Executive and Senior Officer Stock Purchase Plan. The purchases were financed by five-year personal loans at market interest rates from financial institutions. As of December 31, 2004, the outstanding balance on these loans was approximately \$1.6 million as some participants have extended their involvement in the program beyond the original five years. These loans were



secured by common shares with a fair market value of approximately \$2.5 million purchased through this program and owned by the remaining plan participants at December 31, 2004. As a condition of the financing agreement with the financial institution, we guaranteed repayment of principal, interest and other obligations for each participant, but are fully indemnified by the participants. In the opinion of management, it is not probable that we will be required to satisfy these guarantees.

In October 2000, we sold or contributed industrial properties and undeveloped land with a fair value of \$487 million to a joint venture (Dugan Realty LLC) in which we have a 50% interest and recognized a net gain of \$35.2 million. This transaction expanded an existing joint venture with an institutional real estate investor. As a result of the total transactions, we received \$363.9 million of proceeds. The joint venture partially financed this transaction with \$350 million of secured mortgage debt, the repayment of which we directly or indirectly guaranteed. The guarantee associated with \$260 million of such debt expired in December 2003 without us being required to satisfy the guarantee. The remaining \$90 million of such debt is still guaranteed by us. In connection with this transaction, the joint venture partners were given an option to put up to a \$50 million interest in the joint venture to us in exchange for our common stock or cash (at our option), subject to certain timing and other restrictions. As a result of this put option, we deferred \$10.2 million of gain on sale of depreciated property and recorded a \$50 million liability.

We have guaranteed the repayment of \$12.3 million of economic development bonds issued by various municipalities in connection with certain commercial developments. We will be required to make payments under our guarantees to the extent that incremental taxes from specified developments are not sufficient to pay the bond debt service. Management does not believe that it is probable that we will be required to make any significant payments in satisfaction of these guarantees.

We have also guaranteed the repayment of a \$2 million mortgage loan encumbering the real estate of one of our unconsolidated joint ventures. Management believes that the value of the real estate exceeds the loan balance and that we will not be required to satisfy this guarantee.

We evaluated our guarantees under FASB Interpretation 45 ("FIN 45") in order to determine the amount of potential liability we may incur resulting from the guarantees. For this evaluation we used discounted cash flow projections for expected incremental financing to be generated from anticipated development. Based upon these projections, no liability was recorded at December 31, 2004.

We have entered into agreements, subject to the completion of due diligence requirements, resolution of certain contingencies and completion of customary closing conditions, for the future acquisition of land totaling \$43.8 million. We have also entered into an agreement to acquire a single building for \$8.0 million, which is expected to close in 2005.

We renewed all of our major insurance policies in 2004. These policies include coverage for acts of terrorism for our properties. We believe that this insurance provides adequate coverage against normal insurance risks and that any loss experienced would not have a significant impact on our liquidity, financial position, or results of operations.

We are subject to various legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of any ultimate liability with respect to these actions will not materially affect our consolidated financial statements or results of operations.

15. Subsequent Events

Effective as of January 1, 2005, the Company, DRLP, Duke Management, Inc ("DMI"), an Indiana corporation, and DRSLP entered into a Contribution Agreement, pursuant to which DMI contributed to DRLP all of DMI's limited partnership interest in DRSLP in exchange for the issuance to DMI of 435,814 DRLP limited partnership units. As a result, the Company and DRLP now own 100% of the partnership interests in DRSLP. In addition, DMI owns a total of 501,349 DRLP limited partnership units as a result of the transaction.

See additional information regarding this transaction in a Current Report on Form 8-K filed with the SEC on January 4, 2005.



selected quarterly financial information (unaudited)

Selected quarterly information for the years ended December 31, 2004 and 2003 is as follows (in thousands, except per share amounts):

	Quarter Ended			
	December 31	September 30	June 30	March 31
2004				
Revenues from continuing Rental Operations	\$196,521	\$194,331	\$187,351	\$187,448
Revenues from continuing Service Operations	27,195	17,434	14,739	11,435
Net income available for common shares	41,150	42,527	34,716	32,886
Basic income per common share	\$ 0.29	\$ 0.30	\$ 0.24	\$ 0.24
Diluted income per common share	\$ 0.29	\$ 0.30	\$ 0.24	\$ 0.23
Weighted average common shares	142,716	142,273	142,104	138,398
Weighted average common and dilutive potential common shares	157,350	157,105	156,828	156,913
Funds From Operations ⁽¹⁾	\$ 95,487	\$ 89,277	\$ 86,724	\$ 80,981
2003				
Revenues from continuing Rental Operations	\$183,355	\$178,029	\$174,964	\$176,683
Revenues from continuing Service Operations	25,680	12,693	11,661	9,422
Net income available for common shares	49,711	40,185	34,538	37,477
Basic income per common share	\$ 0.37	\$ 0.30	\$ 0.26	\$ 0.28
Diluted income per common share	\$ 0.36	\$ 0.30	\$ 0.25	\$ 0.28
Weighted average common shares	136,105	135,706	135,386	135,170
Weighted average common and dilutive potential common shares	151,661	151,244	151,019	150,627
Funds From Operations ⁽¹⁾	\$ 93,737	\$ 84,730	\$ 80,332	\$ 77,190

⁽¹⁾ Funds From Operations ("FFO") is used by industry analysts and investors as a supplemental operating performance measure of an equity real estate investment trust ("REIT"). FFO is calculated in accordance with the definition that was adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"). FFO, as defined by NAREIT, represents net income (loss) determined in accordance with generally accepted accounting principles ("GAAP"), excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated operating 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.

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 investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Thus, NAREIT created FFO as a supplemental measure of REIT operating performance that excludes historical cost depreciation, among other items, from GAAP net income. Management believes that the use of FFO, combined with the required primary GAAP presentations, has improved the understanding of operating results of REITs among the investing public and made comparisons of REIT operating results more meaningful. Management considers FFO to be a useful measure for reviewing comparative operating and financial performance (although FFO should be reviewed in conjunction with net income which remains the primary measure of performance) because by excluding gains or losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization, FFO assists in comparing the operating performance of a company's real estate between periods or as compared to different companies.



2004 Board of Directors

Unaffiliated Directors

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President
The Branch-Shelton Company

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Independent Real Estate
and Financing Consultant

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Chairman
World Association of
Nuclear Operators

Ngaire E. Cuneo
Partner
Red Associates, LLC

Charles R. Eitel
Chairman, CEO
The Simmons Company

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Dean and Russell L. Carson
Professor of Finance and
Economics
Columbia University,
Graduate School of Business

Mr. Martin C. Jischke
President
Purdue University

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Chairman, CEO
AXIA Health Management, LLC

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Franklin Street Partners

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The Regenstrief Foundation

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Chairman
Palmer-Donavin Manufacturing Co.

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Chairman

Dennis D. Oklak
President, CEO

John W. Nelley, Jr.
Managing Director
Nashville Operations

Board Committees

Audit

Jack R. Shaw (Chair)
Geoffrey Button
William O. McCoy
James E. Rogers
Robert J. Woodward, Jr.

Executive Compensation

Charles R. Eitel (Chair)
Barrington H. Branch
William Cavanaugh III
Ngaire E. Cuneo
Dr. Martin C. Jischke
L. Ben Lytle

Finance

Robert J. Woodward, Jr. (Chair)
Barrington H. Branch
Geoffrey Button
Charles R. Eitel
Dr. Martin C. Jischke
Jack R. Shaw

Corporate Governance

L. Ben Lytle
(Chair and Lead Director)
William Cavanaugh III
Ngaire E. Cuneo
William O. McCoy
James E. Rogers

Management Committee

Dennis Oklak
President and
Chief Executive Officer

Robert Chapman
Senior Executive Vice President
Real Estate Operations

Matthew Cohoat
Executive Vice President
Chief Financial Officer

James Connor
Executive Vice President
Chicago Region

Howard Feinsand
Executive Vice President
General Counsel

Robert Fessler
Executive Vice President
Atlanta Region

Steven Kennedy
Executive Vice President
Construction

Chris Seger
Executive Vice President
National Development/
Construction

Denise Dank
Senior Vice President
Human Resources

Paul Quinn
Senior Vice President
Chief Information Officer

Jay Archer
Senior Vice President
Indiana Industrial

Kerry Armstrong
Senior Vice President
Atlanta Office

Petter Berntzen
Senior Vice President,
Construction

Jennifer Burk
Senior Vice President
Indiana Office

Jerome Crylen
Senior Vice President
St. Louis Operations

William DeBoer
Senior Vice President
Construction

John Gaskin
Senior Vice President
Site Selection & Economic
Incentives

Pete Harrington
Senior Vice President
Construction

Donald Hunter
Senior Vice President
Columbus Operations

Douglas Irmscher
Senior Vice President
Florida Operations

Andrew James
Senior Vice President
Chicago Industrial

Andrew Kelton
Senior Vice President
Raleigh Operations

Wayne Lingafelter
Senior Vice President
Cleveland Operations

Patrick Mascia
Senior Vice President
Minneapolis Operations

Paul Meyer
Senior Vice President,
Construction

John Nelley
Managing Director
Nashville Operations

Samuel T. O'Briant
Senior Vice President
Atlanta Industrial

Thomas Peck
Senior Vice President
Investor Relations and
Capital Markets

Kevin Rogus
Senior Vice President
Cincinnati Operations

Cindy Schembre
Senior Vice President
Retail Operations

Steve Schnur
Senior Vice President
Chicago Office

Don Tennenhouse
Senior Vice President
Marketing

Jeffrey Turner
Senior Vice President
Dallas Operations

James Windmiller
Senior Vice President
Financial Analysis & Taxation

Pete Anderson
Vice President
National Development/Healthcare

Nicholas Anthony
Vice President
Acquisitions/Dispositions

Jeffrey Behm
Vice President
Portfolio Management

Rudy Behne
Vice President
Interior Maintenance

Jon Finn
Regional Vice President
Asset Management

Karen Finan
Vice President
Marketing Management and
Corporate Programs

Donna Hovey
Vice President
Public Media and
Community Relations

Christopher Kollme
Vice President
Acquisitions/Dispositions

Keith Konkoli
Regional Vice President
Asset Management

Joanne McAnlis
Vice President, Tenant Services

Mark Milnamow
Vice President, Controller

John Nemecek
Regional Vice President
Asset Management

Michael Pitts
Vice President, Controller

Kürşad Oğuz
Senior Manager
Financial Analysis



market price and dividends

The Company's common shares are listed for trading on the New York Stock Exchange under the symbol "DRE." The following table sets forth the high, low and closing sales

prices of the common stock for the periods indicated and the dividend paid per share during each such period.

Quarter Ended	2004				2003			
	High	Low	Close	Dividend	High	Low	Close	Dividend
December 31	\$36.00	\$32.78	\$34.14	\$0.465	\$31.76	\$28.19	\$31.00	\$0.460
September 30	34.70	30.46	33.20	0.465	29.40	27.05	29.20	0.460
June 30	35.16	27.49	31.81	0.460	29.30	26.10	27.55	0.455
March 31	34.73	30.44	34.72	0.460	27.50	24.25	26.98	0.455

On January 26, 2005, the Company declared a quarterly cash dividend of \$0.465 per share, payable on February 28, 2005, to common shareholders of record on February 14, 2005.

shareholder information

Corporate Headquarters

600 East 96th Street, Suite 100
Indianapolis, IN 46240
317.808.6000

Transfer Agent

For Dividend Payments, Address Changes, Account Inquiry and/or Registration Changes, visit www.amstock.com, or submit a written request to:

American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10038
800.937.5449 or 212.936.5100

Common Stock Information

Symbol: DRE
Exchange: NYSE

Shareholder Contact

For Shareholder Mailings and Company Information:

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Shareholder Services

Direct Stock Purchase and Dividend Reinvestment Plan

The Duke Direct Stock Purchase Plan offers participants a convenient and economical method to purchase the Company's common stock, and to reinvest their dividends. Specific features of the Plan include:

- Automatic dividend reinvestment
- Optional cash investment availability twice per month
- Automatic purchase program
- Available to first-time investors
- Certificate safekeeping
- No commissions or fees on purchases

Shares sold through this Plan are offered through a prospectus which can be obtained by writing to Investor Relations at the Corporate Headquarters address or by calling American Stock Transfer & Trust Company at 1.800.278.4353 or 1.800.937.5449, or by visiting the Investor Information section of the Company's website at www.dukerealty.com.

Shares may also be purchased on-line by visiting the Investor Information section of the Company's website or by visiting www.investpower.com.

Direct Deposit of Dividends

Shareholders who hold their Duke shares in registered or certificate form can have their common stock dividends automatically deposited into their bank accounts. Information about this direct deposit program can be obtained by contacting the Company's Investor Relations department or American Stock Transfer & Trust Company.

Management Certifications

In accordance with Section 303A.12(a) of the NYSE Listed Company Manual, the CEO of the Company provided a Section 12(a) annual certification, which stated that he was not aware of any violations by the Company of the NYSE corporate governance listing standards. In accordance with Section 302 of the Sarbanes-Oxley Act of 2002, the CEO and CFO of the Company also provided Section 302 certifications, which were filed with the SEC as exhibits to the Company's Annual Report on Form 10-K.

When used in this Annual Report, the word "believes," "expects," "estimates" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially. In particular, among the factors that could cause actual results to differ materially are continued qualification as a real estate investment trust, general business and economic conditions, competition, increases in real estate construction costs, interest rates, accessibility of debt and equity capital markets and other risks inherent in the real estate business including tenant defaults, potential liability relating to environmental matters and liquidity of real estate investments. Readers are advised to refer to Duke's Form 8-K Report as filed with the Securities and Exchange Commission on July 24, 2003 for additional information concerning these risks.

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