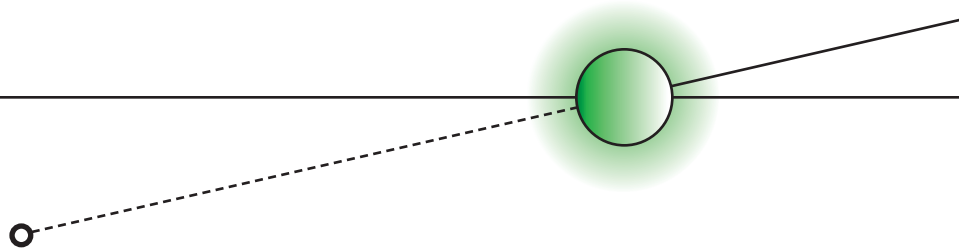


2007 **DUKE REALTY CORPORATION** ANNUAL REPORT



CORPORATE PROFILE

Duke Realty Corporation specializes in the ownership, construction, development, leasing, and management of office, industrial, healthcare, and retail real estate. We are the largest publicly traded, vertically integrated office/industrial real estate company in the United States. Our total portfolio includes more than 130 million rentable square feet and approximately 7,700 acres of land which will support more than 113 million square feet of future development. Duke currently has offices in 22 major U.S. cities. We also develop properties throughout the country through our national build-to-suit division. Headquartered in Indianapolis, Indiana, we employ nearly 1,400 people. Duke Realty Corporation is publicly traded on the New York Stock Exchange under the symbol DRE.

FINANCIAL HIGHLIGHTS FOR 2007

Grew Duke's funds from operations available to common shareholders to \$2.74 per share, up from \$2.48 in 2006, and increased net income available for common shareholders to \$1.55 per share from \$1.07 per share.

Increased total assets owned and managed by 5 percent to \$7.6 billion from \$7.2 billion.

Maintained 95 percent occupancy in approximately 107 million square feet of stabilized in-service properties.

Began construction of more than \$1.23 billion, representing a record 17.7 million square feet of new space.

Pre-leased more than 51 percent of properties under construction.

Renewed 80 percent of leases up for renewal, totaling 9.8 million square feet.

DUKE CONNECTS

A customer-focused company, Duke Realty Corporation is committed to building relationships and leveraging our strengths in the commercial real estate business to deliver the greatest value for clients and shareholders. Connectivity between Duke associates and our clients fuels our ability to provide real estate solutions that help our customers better serve their customers and, ultimately, be more successful in their operations.

HEALTHCARE



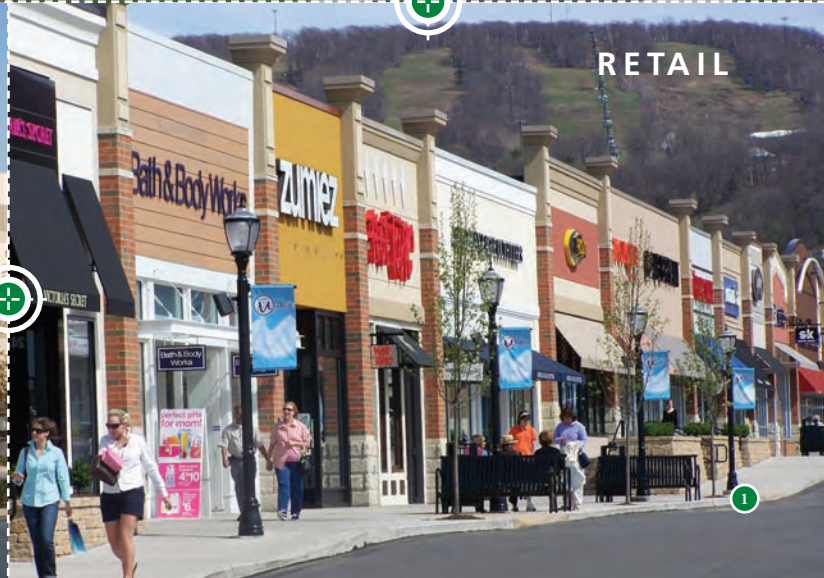
OFFICE



INDUSTRIAL



RETAIL





LINKING TO CUSTOMER NEEDS

Customer satisfaction is the driving force behind Duke's operations. Consequently, we drive our decision making by asking first and foremost: "What do our customers need?"

Several consumer trends are driving today's commercial real estate industry. Our customers' appetite for new types and locations of distribution centers has increased as Americans have become greater consumers of goods. Suburban office parks located near interstates, airports, and employee amenities are preferred by businesses concerned about accessibility, travel to other locations, and convenience. The market for medical office buildings also has accelerated due to longer life spans and increasing healthcare expenditures. The popularity of lifestyle retail centers and mixed-used communities is growing as our population wants places to shop, work, live, spend free time, and interact with others, all in close proximity.

We've responded to our customers' needs by:

- entering new markets with expanding economies and potential port and logistics development opportunities;
- acquiring strategic parcels of land in strong business markets for future development;
- positioning ourselves to be able to meet customers' specific building needs in any market;
- expanding our healthcare facilities development activities; and
- increasing our involvement in retail and mixed-use developments.

Our recent expansion activities have focused primarily on multi-modal locations and logistics hubs to better meet our customers' warehouse and distribution needs in key markets. This direction, coupled with our ability to deliver high-quality, modern, state-of-the-art facilities, has enabled us to become a market leader in developing bulk industrial product.

Duke has long been a pacesetter in developing premier, Class A office properties. To meet our customers' needs, our strategy is centered on suburban, mid-rise projects in leading submarkets for office employment. We now have a presence in 12 of the U.S. markets projected to have the greatest office growth through 2012.

Increasing our land holdings in top U.S. markets is another strategy to enable us to better serve our customers. By having a ready inventory of land for future development, we can develop properties to meet our customers' location and space needs in a short timeframe. With our more than 7,700-acre portfolio of undeveloped land, we are well positioned to take advantage of future growth potential.

Duke's National Build-to-Suit Group is focused on expanding our built-to-suit development services in cities outside of markets where we have offices. This team of professionals is ready to enter these markets and work with clients on land acquisition, development, and construction.

The acquisition of Bremner Healthcare Real Estate in the first half of 2007 has accelerated our national status in the dynamic healthcare market. With Bremner's industry reputation and Duke's capital strength and presence in many growing healthcare markets, BremnerDuke Healthcare Real Estate is poised to meet the needs of the nation's largest industry.

Duke also has increased its retail and mixed-use development efforts. Many of Duke's office and industrial properties are in mixed-use developments that include restaurants, shopping, healthcare, and hotels. Not only does this type of development provide tenants with nearby conveniences, it allows us to capitalize on synergies between our office, healthcare, retail, and industrial operations.

“We worked closely with Dick’s and city officials to outline a plan and timeline for the alterations that satisfied all parties.”

– *Chris Brown,*
Senior Vice President,
Industrial, Atlanta



CUSTOMIZING PROPERTY FOR DICK’S DISTRIBUTION CENTER

After an extensive multi-state site search for its new southeast regional distribution center, Dick’s Sporting Goods, one of the nation’s largest retailers of sporting goods items, shoes, and apparel, not only found the perfect location, they also found an ideal building for their needs.

Originally, Dick’s had planned on having a built-to-suit facility constructed after they chose a location. However, in the process of investigating Duke’s Camp Creek Business Center in East Point, Georgia, as a potential site, they discovered a Duke building that, with minor modifications, would satisfy their space and logistics requirements.

Camp Creek Business Park is a 400-acre, mixed-use business park that Duke is developing along I-285, the major beltway around Atlanta. Camp Creek’s location was appealing to Dick’s because of its convenient access to major interstates and its proximity to Hartsfield-Jackson Airport and nearby amenities.

Dick’s also found attractive the 657,000-square foot building that Duke had already built. Upon touring the facility, they realized that its size, clear height, and number of dock doors were a near match to their requirements. Their only concerns related to parking and truck access.

After talking with Duke’s Atlanta Industrial team, spearheaded by Chris Brown, Senior Vice President, about required modifications, Dick’s found that Duke was able to easily adapt to and meet their requirements. Duke worked closely with Dick’s and city officials to outline a plan and timeline for the alterations that satisfied all parties. Dick’s requirements include increased auto and trailer parking and a 500’ long deceleration lane.



From Left to Right:
Chris Brown, Senior Vice President, Industrial, Duke's Atlanta Office; Dick's Sporting Goods representatives:
Tyler Bronson, Manager of Distribution Planning; Jim Mitchell, Project Manager—Distribution;
Bill Palmire, Senior Director; and Michael Tenny, Vice President of Distribution;
and Tripp Eskridge, Vice President, Design and Construction Services,
The Staubach Company.



DICK'S SPORTING GOODS' REGIONAL
DISTRIBUTION CENTER WILL ENABLE
THEM TO SERVICE THEIR RETAIL
STORES THROUGHOUT THE
SOUTHEASTERN UNITED STATES.

BUILDING ON RELATIONSHIPS



More than anything else, Duke is about people and relationships. Though buildings are the end products, the people behind the buildings and the relationships established with our clients make Duke the first choice for many of the nation's leading companies.

Our local teams around the country build our business by focusing on our clients and their customers. We operate under a simple formula: combine our commitment to quality and our development expertise with our drive for complete customer satisfaction.

One way that we attain our customer service goal is by adhering to our time-proven tradition of bringing onto the Duke team real estate professionals who understand the local market, can secure the best land positions, and have established relationships with the top local contacts. Thanks to our experienced and active development team, Duke is attuned to market dynamics and has solid working relationships with the brokers and community leaders where we do business. The hard work, innovation, and professionalism of the Duke team have been key factors in our continued growth.

We also bring to the table a wide spectrum of services, including working closely with clients on site selection, construction, and property management. By owning the land, using our in-house construction company, and leasing and managing our own properties, we are able to satisfy our clients' unique needs more efficiently and economically. Our in-house capabilities enable us to complete projects on time and within budget.

Relationships have fueled much of our growth. As our clients have expanded their operations, entered new markets, or reconfigured their supply chain networks, they have repeatedly turned to Duke for a solution. Repeat business can only be attained through strong relationships built on trust, satisfaction, and mutual respect.

Look at our client list and you'll see that Duke is in good company. We're honored to include on our roster of clients nearly 70 percent of Fortune's Top 100 Companies, including such global giants as General Electric, Procter and Gamble, and General Motors. The relationships we've built with these top-tier companies have been instrumental in obtaining repeat business, as they've realigned their facilities or expanded into locations that are strategic to their logistics needs.

Our reputation has been an important factor in developing new relationships. By working closely with existing customers to ensure their satisfaction, we are building a base of customers who are likely to share their positive experiences with others looking for a customer-focused developer. Solid references from satisfied clients are authoritative proof that Duke repeatedly delivers exceptional products regardless of the challenges encountered.

Our tenant base includes approximately 4,000 clients, many of which repeatedly renew their leases. Relationships and satisfaction have been key factors in our ability to realize more than 95 percent occupancy in our stabilized, in-service properties.

“Our team partnered with Lenovo to ensure that the three-building campus met their vision and enabled them to conduct their business operations as efficiently as possible.”

– Hooker Manning,
Vice President,
Leasing, Raleigh



COLLABORATING WITH LENOVO ON CORPORATE CAMPUS

When it moved its U.S. headquarters to Raleigh, a region where high-tech companies abound, Lenovo, a global PC leader, wanted to be sure that its corporate campus was strategically located to attract a talented pool of workers, had an information system infrastructure to meet their advanced needs, and property available to accommodate future growth.

Lenovo chose Duke's Perimeter Park, a 3-million square foot development that features office, industrial, and retail space, as well as land for built-to-suit projects, and contracted Duke as a partner to develop three built-to-suit buildings.

Located just minutes from Raleigh/Durham International Airport, I-40, I-540, and Research Triangle Park, Perimeter Park provides Lenovo with convenient access to various modes of transportation and includes amenities such as access to a fitness center, nearby restaurants, and hotels.

Hooker Manning, Vice President of Leasing in Duke's Raleigh office, and the rest of the Duke team allied themselves with Lenovo to ensure that the three-building, 501,000-square foot campus met Lenovo's vision and enabled them to conduct their business

operations as efficiently as possible. Duke delivered the first two buildings and has started construction on the third building. Building One is a 183,000-square foot, five-story facility that houses Lenovo's Customer Center, a high-tech facility designed to allow the company to showcase its comprehensive line of PC products, including the widely respected ThinkPad notebooks. Building Two mirrors Building One and serves as Lenovo's corporate headquarters. Construction on Building Three, which will be a four-story, 135,000-square foot building, is scheduled for completion in 2008. The 37-acre site also provides Lenovo with the flexibility to expand into an adjoining facility.

In addition to the solid relationship it built with Lenovo, Duke connected with representatives from the Town of Morrisville, Wake County, and North Carolina's Department of Commerce to help bring this project to fruition. The long-term benefits of Lenovo's decision to base its headquarters in Perimeter Park include the retention of existing jobs and the addition of more jobs over time, which ultimately will have a positive impact on housing, the tax base, service businesses, and the school system.



From Left to Right:
Hooker Manning, Vice President, Leasing, Duke's Raleigh Office,
and Bill Flynn, Director of Real Estate, Lenovo



**LENOVO RECENTLY INTRODUCED
ITS THINKPAD X300 NOTEBOOK PC,
SHOWN NEXT TO FRAN O'SULLIVAN,
VICE PRESIDENT OF LENOVO'S
PRODUCT GROUP.**

PARTNERING TO FIND SOLUTIONS

In today's challenging business world, Duke has found that working with other parties toward a common goal is often the key to success. Collaboration can result in a project coming to fruition that otherwise might not have. Joint ventures allow us to expand our footprint, both in the types of properties we develop and the markets in which we operate. Recognizing the advantages that alliances can bring, Duke has demonstrated an ongoing receptiveness to investigating joint venture opportunities.

Joint ventures with other developers have enabled Duke to develop strategically located logistics facilities and enter into new business arenas. For example, in Indianapolis and Columbus, we've partnered with other entities to develop three of the most modern, master-planned logistics parks in the Midwest. Each of these projects is located at key points along the supply-distribution chain, giving distribution companies access to the global marketplace.

Meanwhile, in Atlanta, we've joined forces with three other companies to develop 3630 Peachtree, a mixed-use project that combines premium office space with luxury residences and retail space. Working together, this team is building a landmark 34-story tower that will fulfill end-user demand for an easily accessible place where they can live, work, and shop.

Our retail efforts are supported by joint ventures as well. By partnering with a company that is well

versed in the retail arena, particularly leasing and marketing, we have been able to add this component to our product mix. Mixed-use communities have become more common to satisfy consumers' demands for one-stop shopping, employment, living, and entertainment. The inclusion of retail in our portfolio allows us to add to our capabilities in office, industrial, and healthcare development and integrate different property types into master-planned, mixed-use projects.

BremnerDuke Healthcare Real Estate is the outgrowth of a partnership between Duke and Bremner Healthcare. We officially joined forces in early 2007 to capitalize on the strengths each company brought to the equation. Bremner's expertise in the industry, coupled with Duke's financial strength, construction expertise, and market presence, make us a competitive force as we aggressively pursue medical office buildings and other healthcare facilities.

Built-to-suit properties that meet clients' exacting specifications is another component of Duke's development business. Because our ultimate goal is complete customer satisfaction, Duke allies itself with its built-to-suit clients to ensure that the finished product meets every requirement, whether clear height, column spacing, trailer parking, or technology infrastructure.



“As a result of our strong relationship with St. Vincent’s Health,
we have been identified as their strategic real estate
partner in Central Indiana.”

— Bruce Gordon,
Vice President,
Leasing, BremnerDuke



HELPING ST. VINCENT’S DELIVER CONVENIENT HEALTHCARE

“Bringing the spirit of caring close to home” is the theme that St. Vincent Health has adopted to reflect its commitment to making medical care more convenient. To this end, the healthcare system has opened a network of hospitals, medical office buildings, and primary care physician offices around the Central Indiana region so that patients may receive the care they need right in their neighborhood.

BremnerDuke Healthcare Real Estate, a division of Duke focused on serving the medical industry, has partnered with St. Vincent Health to develop and manage many of their medical-use facilities. As a result of this strong relationship, BremnerDuke has been identified as St. Vincent Health’s strategic real estate partner in Central Indiana. Because of its understanding of how healthcare services are delivered, St. Vincent Health has relied on BremnerDuke to identify sites for future facilities, perform due diligence on property sites, secure development incentives from local communities, design and construct the buildings and, upon completion, lease and manage the properties. During its 10-year relationship with St. Vincent’s Health, one of the largest and most comprehensive health care

systems in Indiana, BremnerDuke has been involved in the development of projects valued in excess of \$100 million.

Currently under construction is St. Vincent Medical Center Northeast—a healthcare facility that includes the first, stand-alone, full-service Emergency Department in the State of Indiana.

Designed to provide residents in one of the fastest-growing Indianapolis submarkets access to immediate, high-level emergency treatment in their community, this 14-room Emergency Department is complemented by other services available in the 120,000-square foot medical building. A three-story, state-of-the-art healthcare facility, St. Vincent Medical Center Northeast also includes a diagnostics and imaging center and an attached ambulatory surgery center, as well as 35,000 square feet of premier medical office space for private physicians.

Located in Hamilton County at Exit 10 off I-69, St. Vincent Medical Center Northeast will be highly accessible by thousands of area residents seeking convenient medical services.



From Left to Right:
Keith Cantwell, BremnerDuke Project Manager;
Paul Clendenen, Director of Real Estate & Master Facility Planning, St. Vincent's Health;
and Bruce Gordon, Vice President, Leasing, BremnerDuke.



ST. VINCENT'S MEDICAL CENTER NORTHEAST
WILL PROVIDE HIGH-QUALITY MEDICAL
SERVICES TO PATIENTS IN THE
NORTHEAST INDIANAPOLIS AREA.

SHARING RESPONSIBILITY FOR THE FUTURE

Responsible corporate citizenry demands a commitment to creating practices that balance continuous improvement in environmental, economic, and community performance. By doing so, Duke will enhance shareholder value, implement innovative development solutions, and make a difference in the communities we serve.

Duke wants to ensure a better world for future generations. That's why we've renewed our pledge to environmental stewardship and are proactively seeking ways to build harmony between our structures and the environment. Though Duke is already an experienced LEED (Leadership in Energy and Environmental Design) developer, we are now evaluating every new project's potential as a LEED-certified building. A designation developed by the U.S. Green Building Council, LEED certification is an indicator that a building meets specific design, construction, and operating criteria and, therefore, is deemed to be environmentally responsible. We also are evaluating our existing portfolio to determine the modifications that would be needed for buildings to earn a LEED-EB (Existing Building) rating. Not only does this emphasis on developing "green" buildings satisfy our pledge to the environment, but is increasingly important as concern for our Earth's future becomes top of mind for our shareholders and customers.

Brownfield redevelopment is another sustainability initiative in which Duke is engaged. Taking abandoned sites where large manufacturing facilities once stood, Duke clears and remediates the land and then develops modern, efficient warehouse and distribution facilities. In 2007, Duke obtained two former General Motors manufacturing plant sites, and is developing industrial parks with a distribution focus. As part of the redevelopment of

a site in Baltimore, Maryland, more than 98,000 tons of concrete, asphalt, and metal were recycled and are being reused at the site.

Brownfield redevelopments, as well as other Duke developments, contribute to the economic vitality of a community. New buildings typically mean that jobs are being created which, in turn, positively affects housing, the tax base, service businesses, and school systems. Duke is committed to thoughtful community development, focusing on needed properties that will enhance the appeal of the market.

Duke's active engagement in developing mixed-use communities and park-like office and industrial properties is another way in which we promote sustainability practices. Attractively landscaped walking trails, ponds, and outdoor seating encourage pedestrian traffic. And because the majority of our developments incorporate or are located near restaurants, shops, and other amenities, tenants find it easy and convenient to walk rather than drive to these destinations.

Duke believes that as a corporate citizen it has a broad responsibility to the communities where it does business. Duke associates volunteer in a variety of programs in their communities, from homeless shelters to programs for victims of domestic abuse to providers of hospice services, and make generous donations to charities. Our local offices also support community service organizations, such as chambers of commerce and youth sporting leagues. As a corporation, we support the United Way and Susan G. Komen for the Cure. Many associates also participate in a Day of Caring, a designated day to volunteer at a United Way organization.

DUKE'S SUSTAINABILITY POSITION

Duke's commitment to sustainability is based on creating corporate practices that balance continuous improvement in economic, environmental, and community performance. By doing so, we will enhance shareholder value, implement innovative development solutions, and make a difference in the communities we serve.



An experienced LEED (Leadership in Energy and Environmental Design) developer, Duke has a variety of office and industrial "green" projects under development or completed as of the end of 2007, with a commitment to expanding its sustainable building portfolio. Norman Pointe II, a new 10-story, 322,000-square foot, Class A office building in suburban Minneapolis, is one example of a Duke building that has been developed to incorporate sustainability standards. The building has been submitted for a LEED Core and Shell Certified rating by the U.S. Green Building Council. Duke also is working closely with tenants and providing them with guidelines to obtain a LEED Commercial Interiors rating.



Showing its concern for protecting the declining number of gopher tortoises in Florida, Duke took a proactive stance when it began construction of the new Unilever distribution center in Jacksonville. The site on which the building is being constructed was home to more than 35 gopher tortoises, a species whose numbers are dwindling. Though not yet a threatened species when construction began and, therefore, not protected under the Florida Fish and Wildlife Conservation Commission, Duke was aware that the gopher tortoises' natural habitat is being consumed by rapid development in the state. Duke elected to relocate the gopher tortoises to a habitat that provides the greatest conservation value for the species.



ENHANCING THE DISTRIBUTION NETWORK

As the economy becomes more globalized, an increasing percentage of goods used by American consumers are being produced in foreign countries. At what points these goods enter our country and where they are warehoused before they are dispersed to end-users throughout the United States—the logistics industry—is becoming an increasingly complex and growing business.

Duke recognized the growth of the logistics industry and included a port initiative in its strategic plan. We have focused development efforts on:

- seaside ports—the points at which most foreign-produced goods enter the United States—and
- inland multimodal ports—locations that because of their access to rail, highways, and airports are ideal for distribution centers.

To ensure that it is positioned to provide warehouse/distribution space at key points along the supply chain, Duke has opened offices or acquired properties in or near key port cities, such as Houston, Savannah, Norfolk, Baltimore, and Linden, New Jersey. In the Houston market, we opened an office and have developed several industrial properties. We also acquired 174 acres of land near the Port of Houston, which can support up to 2.9 million square feet of industrial space. At the Ports of Savannah and

Norfolk, we acquired industrial properties that were fully leased and will use our property management expertise to ensure that we retain these tenants.

Acquiring land for development is the most significant barrier to entering thriving port areas. One way that Duke has been able to create space in these destinations is to purchase brownfield sites and redevelop them into vital hubs for the logistics industry. In Baltimore, we razed a former General Motors plant, remediated the land, and are developing the Chesapeake Commerce Center, a 183-acre industrial park with a distribution focus. Two buildings, totalling 460,000 square feet, are now available for lease in the center. At the end of 2007, we purchased another former General Motors plant site in Linden, New Jersey, which we will remediate and redevelop into industrial and retail properties.

The third component in our initiative is to develop industrial campuses in strategic logistics locations. Rickenbacker Global Logistics Park in Columbus, Ohio, AllPoints Midwest and AllPoints at Anson in central Indiana, and Grand Lakes near Dallas/Fort Worth, are all examples of master-planned parks in multi-modal locations that give our customers a competitive advantage by providing them convenient access to the global marketplace.



From Left to Right:
Kara Allison, Government and Community Relations Practice Leader, Hull & Associates;
Bob Grossi, Vice President, Leasing and Development for Duke's East Region;
and Gil Lipscomb, Project Manager, Hull & Associates.



Linden, New Jersey, located just minutes from the Port of New York/New Jersey—the largest port complex on the East Coast—is an ideal location for warehouse and distribution facilities for imported goods. However, similar to other port markets, acquiring land presented a barrier to entry. So, when General Motors announced that it was selling its former assembly plant that sits on 100 acres in Linden, Duke again saw purchasing a brownfield site as a way to acquire land for redevelopment. Though Duke was in competition with more than 20 other companies to acquire the site, the positive experience that General Motors had with Duke in redeveloping its former plant site in Baltimore led them to again select Duke. Duke is re-partnering with Hull & Associates, an environmental engineering firm that it worked with on razing the plant and remediating the land in Baltimore. The site will be redeveloped to include distribution facilities and retail stores to serve the nearby community.

With the expansion and improvements that are being made to both the Suez and Panama Canals, the journey to eastern ports will be less time-consuming for Asian-produced goods coming into the United States. Nearly every port along the Eastern seaboard is making improvements to accommodate the projected increase in imports once the canal improvements are completed. Through its port strategy, Duke is positioning itself to provide the warehouse and distribution space that importers need when containers arrive in the United States until products are dispersed to end-users.



TO OUR SHAREHOLDERS

2007 was a year of strong performance and results for Duke Realty Corporation, and validation of our strategic plan for driving long-term earnings growth. For the year ended December 31, 2007, funds from operations (FFO) per share were \$2.74 compared to \$2.48 in 2006. This increase of 10.5% represents our first double-digit gain since 2000.

Our results are derived from our unique-in-the-industry strategy:

- A **full-service development model** from site selection through construction and leasing, allowing our customers to rely on us for a complete solution to their real estate needs;
- Investment in **four product types** – industrial, office, retail and healthcare – providing diversity of income and segment-specific risk; and
- A **national operating platform with local execution**, maximizing efficiencies and capitalizing on market-specific expertise in 22 cities across the United States.



A STRONG DEVELOPMENT YEAR

After a record \$1.1 billion of development starts in 2006, we achieved a new record of \$1.2 billion in 2007. We also achieved an annual record for leasing activity in 2007, with new leases for 22.5 million square feet of space and renewed leases for another 12.0 million square feet.

Despite absorption into our portfolio of significant new development during 2007, our stabilized in-service properties were 94.9% leased at year-end, compared to 95.3% at year-end 2006. We completed land acquisitions of over \$321 million in 2007, and generated proceeds of \$162 million from land dispositions. Acquisitions included land positions in Southern California, Phoenix and Houston, implementing our plan to enter new markets that are prime candidates for future profitable development activity.

In 2007, we disposed of 41 portfolio properties and 16 built-for-sale properties. Proceeds from these dispositions were \$358 million and \$265 million, respectively. We remain committed to our capital recycling strategy that results in a higher yielding, younger and more functional portfolio. We will continue to recycle capital in 2008 as market conditions permit.

FOUR PRODUCT TYPES

DIVERSIFY RISK

Unlike REITs that invest in a single type of real estate, Duke's capital is invested in a diversified portfolio that serves to mitigate industry risk and to some degree overall economic uncertainty. In 2007, we balanced our development starts and acquisitions across four product types: industrial, office, healthcare and retail. Notable among these were fully leased distribution facilities near the ports of Norfolk, Houston and Seattle; a

shuttered General Motors factory in northern New Jersey, which will be demolished and redeveloped as retail and industrial property; and a fully leased suburban office building in the northern Virginia market that completes a five building campus for a government contractor.

In February 2007, we completed the acquisition of our former joint venture partner to form the BremnerDuke Healthcare Division. BremnerDuke will participate in the nation's largest and fastest growing industry by providing real estate solutions to healthcare providers throughout the country. BremnerDuke began projects costing \$117 million in 2007.

In the retail sector, we continued our focus on joint venture development of big box and lifestyle center projects in major markets.

**GEOGRAPHIC EXPANSION
PROVIDES FURTHER GROWTH**

Duke's midwestern heritage serves us well as we undertake new development activity throughout the country. In 2007, we opened offices in Seattle, Austin, and San Antonio, increasing our market presence to 22 cities. Our expansion is designed to follow population growth, port (and therefore distribution) expansion, and incremental healthcare demand to new markets in the West, South, and Southeast. At the end of 2007, 44% of our assets were located outside the Midwest.

Our strategy in entering new markets is clear and proven. We hire seasoned real estate professionals who know the territory and support them nationally with a strong operating platform. We capably deliver a full array of development services with maximum efficiency to our new and existing customers and brokers, and quickly establish ourselves as a viable choice for real estate solutions in these burgeoning markets.

Our national operating platform has solid financial underpinning. During 2007, we increased our line of credit to \$1.3 billion from \$1.0 billion. We issued \$300 million of corporate unsecured notes with an effective interest rate of 6.16%, and seven million new shares of common stock with proceeds of \$233 million. We continue to maintain a conservative balance sheet in light of current market conditions, with investment grade debt ratings of Baa1/BBB+. In October, Duke was added to the S&P Midcap 400 Index. We continue to rely on joint ventures when appropriate as an added source of capital.

A LOOK AHEAD

While our operating metrics and basic business thrived in 2007, the decline in our stock price and the ominous economic climate portend a difficult 2008. At this writing, the availability of capital in virtually frozen markets, the direction of interest rates, and the overall vitality of the economy are uncertain at best. Despite the negativity toward the REIT industry in general, we believe that our fundamental business strategies are sound. By executing intelligently and efficiently, following our strategic plan in a disciplined way, adjusting to economic conditions and managing our cost structure, I am confident that Duke will continue to produce maximum profitability and that our stock price will reflect that profitability over time.

Thank you to all of our associates for their hard work and dedication during this past year. Thanks also to our Board of Directors for their continued support and guidance. And, finally, thanks to all of you, our shareholders, for your confidence in us. We look forward to a successful 2008.

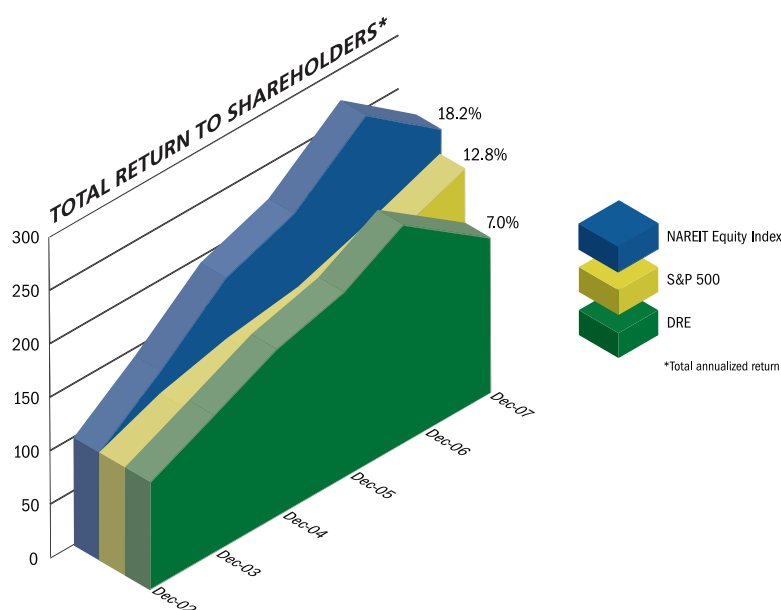


Dennis D. Oklak
Chairman & CEO

Indianapolis, Indiana
March 6, 2008

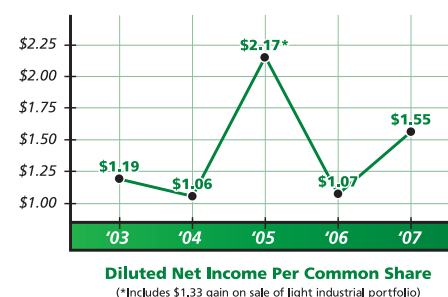
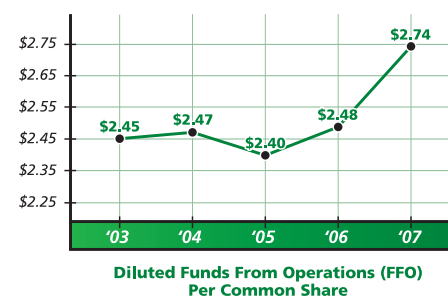
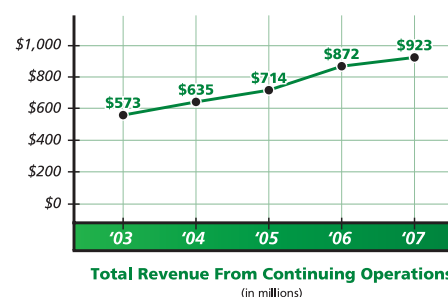
FINANCIAL HIGHLIGHTS

(in thousands, except per share amounts)	2007	2006	2005
Total revenues from continuing operations	\$ 923,227	\$ 871,677	\$ 713,552
Net income available for common shareholders	217,692	145,095	309,183
Funds from operations – diluted	409,414	371,104	373,903
Per share:			
Diluted net income	\$ 1.55	\$ 1.07	\$ 2.17
Diluted FFO	2.74	2.48	2.40
Dividends paid	1.91	1.89	1.87
FFO Payout Ratio	69.9%	76.4%	78.1%
At year end:			
Total assets	\$ 7,661,981	\$ 7,238,595	\$ 5,647,560
Total shareholders' equity	2,750,033	2,503,583	2,452,798
Senior unsecured debt ratings			
Standard & Poor's	BBB+	BBB+	BBB+
Moody's	Baa1	Baa1	Baa1



CUMULATIVE TOTAL RETURN

	NAREIT	S&P 500	DRE
Dec-02	100.00	100.00	100.00
Dec-03	137.13	128.69	129.94
Dec-04	180.44	142.69	151.21
Dec-05	202.38	149.70	161.45
Dec-06	273.34	173.34	207.91
Dec-07	230.45	182.86	140.03



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, 2007. 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):

	2007	2006	2005	2004	2003
Results of Operations:					
Revenues:					
Rental Operations from Continuing Operations	\$ 823,869	\$ 781,552	\$ 631,611	\$ 564,094	\$ 513,404
Service Operations from Continuing Operations	99,358	90,125	81,941	70,803	59,456
Total Revenues from Continuing Operations	\$ 923,227	\$ 871,677	\$ 713,552	\$ 634,897	\$ 572,860
Income from Continuing Operations	\$ 159,196	\$ 151,363	\$ 132,815	\$ 126,941	\$ 133,022
Net Income Available for common shareholders	\$ 217,692	\$ 145,095	\$ 309,183	\$ 151,279	\$ 161,911
Per Share Data :					
Basic income per common share:					
Continuing operations	\$ 0.70	\$ 0.69	\$ 0.61	\$ 0.63	\$ 0.70
Discontinued operations	0.86	0.39	1.58	0.44	0.49
Diluted income per common share:					
Continuing operations	0.69	0.68	0.60	0.63	0.70
Discontinued operations	0.86	0.39	1.57	0.43	0.49
Dividends paid per common share	1.91	1.89	1.87	1.85	1.83
Dividends paid per common share – special	-	-	1.05	-	-
Weighted average common shares outstanding	139,255	134,883	141,508	141,379	135,595
Weighted average common shares and potential dilutive common equivalents	149,614	149,393	155,877	157,062	151,141
Balance Sheet Data (at December 31):					
Total Assets	\$ 7,661,981	\$ 7,238,595	\$ 5,647,560	\$ 5,896,643	\$ 5,561,249
Total Debt (1)	4,316,460	4,109,154	2,600,651	2,518,704	2,335,536
Total Preferred Equity	744,000	876,250	657,250	657,250	540,508
Total Shareholders' Equity	2,750,033	2,503,583	2,452,798	2,825,869	2,666,749
Total Common Shares Outstanding	146,175	133,921	134,697	142,894	136,594
Other Data:					
Funds From Operations (2)	\$ 384,032	\$ 338,008	\$ 341,189	\$ 352,469	\$ 335,989

(1) Includes \$147,309 of secured debt classified as liabilities of properties held for sale at December 31, 2006.

(2) 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") like Duke. 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"). NAREIT created FFO as a supplemental measure of REIT operating performance that excludes historical cost depreciation, among other items, from net income determined in accordance with United States generally accepted accounting principles ("GAAP"). FFO is a non-GAAP financial measure developed by NAREIT to compare the operating performance of REITs. The most comparable GAAP measure is net income (loss). FFO should not be considered as a substitute for net income or any other measures derived in accordance with GAAP and may not be comparable to other similarly titled measures of other companies.

Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry analysts and investors have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. FFO, as defined by NAREIT, represents GAAP net income (loss) excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated real estate assets, plus certain non-cash items such as real estate asset depreciation and amortization, and after similar adjustments for unconsolidated partnerships and joint ventures.

Management believes that the use of 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 believes FFO is 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 real estate assets and excluding real estate asset depreciation and amortization, FFO provides a useful comparison of the operating performance of our 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.

Cautionary Statement Regarding Forward-Looking Statements

Certain statements contained in or incorporated by reference into this Annual Report, including, without limitation, those related to our future operations, constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended. The words “believe,” “estimate,” “expect,” “anticipate,” “intend,” “plan,” “seek,” “may” and similar expressions or statements regarding future periods are intended to identify forward-looking statements.

These forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements, or industry results, to differ materially from any predictions of future results, performance or achievements that we express or imply in this Report or in the information incorporated by reference into this Report. Some of the risks, uncertainties and other important factors that may affect future results include, among others:

- Changes in general economic and business conditions, including performance of financial markets;
- Our continued qualification as a real estate investment trust, or “REIT,” for U.S. federal income tax purposes;
- Heightened competition for tenants and potential decreases in property occupancy;
- Potential increases in real estate construction costs;
- Potential changes in the financial markets and interest rates;
- Volatility in our stock price and trading volume;
- Our continuing ability to raise funds on favorable terms through the issuance of debt and equity in the capital markets;

- Our ability to successfully identify, acquire, develop and/or manage properties on terms that are favorable to us;
- Our ability to be flexible in the development and operation of joint venture properties;
- Our ability to successfully dispose of properties on terms that are favorable to us;
- Inherent risks in the real estate business including, but not limited to, tenant defaults, potential liability relating to environmental matters and liquidity of real estate investments; and
- Other risks and uncertainties described herein, as well as those risks and uncertainties discussed from time to time in our other reports and other public filings with the Securities and Exchange Commission (“SEC”).

This list of risks and uncertainties, however, is only a summary of some of the most important factors and is not intended to be exhaustive. We have on file with the SEC a Current Report on Form 10-K dated February 29, 2008 with additional risk factor information.

Although we presently believe that the plans, expectations and results expressed in or suggested by the forward-looking statements are reasonable, all forward-looking statements are inherently subjective, uncertain, and subject to change, as they involve substantial risks and uncertainties beyond our control. New factors emerge from time to time, and it is not possible for us to predict the nature, or assess the potential impact, of each new factor on our business. Given these uncertainties, we caution you not to place undue reliance on these forward-looking statements. We undertake no obligation to update or revise any of our forward-looking statements for events or circumstances that arise after the statement is made, except as required by law.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Business Overview

We are a self-administered and self-managed REIT that began operations through a related entity in 1972. As of December 31, 2007, we:

- Owned or jointly controlled 726 industrial, office, healthcare and retail properties (including properties under development), consisting of more than 121.1 million square feet; and
- Owned or jointly controlled approximately 7,700 acres of unencumbered land with an estimated future development potential of more than 113 million square feet of industrial, office, healthcare and retail properties.

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

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

Management Philosophy and Priorities

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

- One of our primary business objectives 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)

developing and acquiring new properties for rental operations in our existing markets; (iii) expanding geographically by acquiring and developing properties in new markets; (iv) using our construction expertise to act as a general contractor or construction manager in our existing markets and other domestic markets on a fee basis; (v) developing and repositioning properties in our existing markets and other markets which we will sell through our Service Operations property sale program; and (vi) providing a full line of real estate services to our tenants and to third parties.

- 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. Additionally, we employ a capital recycling program where we utilize sales of operating real estate assets that no longer fit our strategies to generate proceeds that can be recycled into new properties that better fit our current and longer term strategies. 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 generally on an unsecured basis; (iv) maintaining conservative debt service and fixed charge coverage ratios; (v) generating proceeds from the sale of non-strategic properties; and (vi) issuing perpetual preferred stock for 5-10% of our total capital structure.

Year in Review

During 2007, we continued the execution of our strategy to improve our portfolio of held for investment buildings through our capital recycling program, increasing our development pipeline to over \$1.9 billion, and continuing geographic expansion that we anticipate will provide future earnings growth. As a result of these accomplishments, we achieved steady operating results while maintaining a strong balance sheet.

Net income available for common shareholders for the year ended December 31, 2007, was \$217.7 million, or \$1.55 per share (diluted), compared to net income of \$145.1 million, or \$1.07 per share (diluted) for the year ended 2006. FFO available to common shareholders totaled \$384.0 million for the year ended December 31, 2007, compared to \$338.0 million for the same period in 2006. Industry analysts and investors use FFO 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 United States generally accepted accounting principles ("GAAP"), excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated real estate assets, plus certain non-cash items such as real estate asset depreciation and amortization, and after similar adjustments for unconsolidated partnerships and joint ventures.

Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry analysts and investors have considered presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. 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 believes FFO is 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 real estate assets and excluding real estate asset depreciation and amortization, FFO provides a useful comparison of the operating performance of our real estate between periods or as compared to different companies.

The following table summarizes the calculation of FFO for the years ended December 31, 2007, 2006 and 2005, respectively (in thousands):

	2007	2006	2005
Net income available for common shareholders	\$ 217,692	\$ 145,095	\$ 309,183
Adjustments:			
Depreciation and amortization	277,691	254,268	254,170
Company share of joint venture depreciation and amortization	26,948	18,394	19,510
Earnings from depreciable property sales – wholly owned	(121,072)	(42,089)	(227,513)
Earnings from depreciable property sales – share of joint venture	(6,244)	(18,802)	(11,096)
Minority interest share of adjustments	(10,983)	(18,858)	(3,065)
Funds From Operations	\$ 384,032	\$ 338,008	\$ 341,189

We continued strategic initiatives to expand geographically, recycle capital from the disposition of operating properties, and create value by leveraging our development, construction and management capabilities as follows:

- As part of our continuing strategy to expand into new markets, we entered the Southern California, Seattle and Eastern Virginia markets in 2007. This follows our geographic expansion initiatives in 2006 into the Washington, D.C., Baltimore, Phoenix and Houston markets.

- Throughout 2007, we completed land acquisitions totaling \$321.3 million while generating proceeds of \$161.5 million from the disposition of other land parcels. Of our total undeveloped land inventory, \$108.1 million was placed under development during 2007 as construction activity commenced.
- In February 2007, we continued our expansion into the health care real estate market by completing the acquisition of Bremner Healthcare Real Estate ("Bremner"), a national health care development and management firm. The initial consideration paid to the sellers totaled \$47.1 million, and the sellers may be eligible for further contingent payments over the next three years.
- We disposed of 32 non-strategic wholly owned held for rental properties for \$336.7 million of gross proceeds. Additionally, unconsolidated subsidiaries disposed of 10 properties of which our share of the gross proceeds totaled \$30.1 million. These transactions were a continuation of our long-term strategy of recycling assets into higher yielding new developments.
- We disposed of 15 properties, which were developed with the intent to sell, for \$256.6 million of gross proceeds and recognized pre-tax gains on sale of \$34.7 million.
- We will continue to develop long-term assets to be held in our portfolio and develop assets to be sold upon, or soon after, completion. With over \$1.9 billion (which includes \$182.6 million of third-party construction backlog) in our development pipeline at December 31, 2007, we are encouraged about the long-term growth opportunities in our business. Newly developed properties, with a basis of \$593.1 million and occupancy of 59.7% at December 31, 2007, were placed in service during the year.
- We achieved record leasing activity in 2007 with approximately 22.5 million square feet of new leases and approximately 12.0 million square feet of lease renewals.
- We have continued to maintain a high occupancy level during this year of portfolio expansion as the overall occupancy percentage of 92.7% on our in-service held for rental portfolio was consistent with the 2006 level of 92.8%.

Highlights of our key financing activities in 2007 are as follows:

- We had \$546.1 million outstanding on our lines of credit as of December 31, 2007. During 2007, the borrowing capacity on our line of credit was increased from \$1.0 billion to \$1.3 billion while maintaining the interest rate of LIBOR plus 52.5 basis points.
- We issued \$300.0 million of unsecured notes at an effective interest rate of 6.16%. We retired \$200.0 million of unsecured notes with a weighted average effective interest rate of 5.55%.
- In October 2007, we issued 7.0 million shares of our common stock for net proceeds of \$232.7 million.
- In October 2007, we redeemed all of the outstanding shares of our 7.99% Series B Cumulative Redeemable Preferred Stock at a liquidation amount of \$132.3 million.
- We continue to maintain a conservative balance sheet and investment grade debt ratings from Moody's Investors Service (Baa1) and Standard & Poor's Ratings Group (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) was 48.4% at December 31, 2007 compared to 37.4% at December 31, 2006.

Key Performance Indicators

Our operating results depend primarily upon rental income from our industrial, office, and healthcare properties ("Rental Operations"). The following discussion 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, our ability to maintain favorable occupancy rates is a principal driver of our results of operations. The following table sets forth occupancy information regarding our in-service portfolio of rental properties (excluding in-service properties developed or

acquired with the intent to sell – “Service Operations Buildings”) as of December 31, 2007 and 2006, respectively (in thousands, except percentage data):

Type	Total Square Feet		Percent of Total Square Feet		Percent Occupied	
	2007	2006	2007	2006	2007	2006
Industrial	77,143	75,455	69.4%	69.3%	93.8%	93.1%
Office	32,384	32,481	29.1%	29.8%	90.2%	92.0%
Other	1,612	916	1.5%	0.9%	89.8%	96.2%
Total	111,139	108,852	100.0%	100.0%	92.7%	92.8%

Lease Expiration and Renewals: Our ability to maintain and grow occupancy rates primarily depends upon our continuing ability to re-lease expiring space. The following table reflects our in-service portfolio lease expiration schedule by property type

as of December 31, 2007. The table indicates square footage and annualized net effective rents (based on December 2007 rental revenue) under expiring leases (in thousands, except percentage data):

Year of Expiration	Total Portfolio			Industrial		Office		Other	
	Square Feet	Ann. Rent Revenue	% of Revenue	Square Feet	Ann. Rent Revenue	Square Feet	Ann. Rent Revenue	Square Feet	Ann. Rent Revenue
2008	12,443	\$ 65,183	9%	9,920	\$ 36,230	2,467	\$ 28,205	56	\$ 748
2009	11,780	77,664	11%	8,394	33,718	3,317	43,223	69	723
2010	13,509	99,944	14%	9,240	40,039	4,256	59,718	13	187
2011	13,937	87,565	12%	10,396	39,297	3,474	47,207	67	1,061
2012	10,992	77,328	11%	7,531	30,108	3,412	46,338	49	882
2013	9,401	82,543	12%	5,220	22,364	4,126	59,361	55	818
2014	6,486	38,275	5%	4,995	18,289	1,463	19,521	28	465
2015	8,249	60,814	8%	5,988	23,622	2,261	37,192	-	-
2016	3,994	27,347	4%	2,855	10,342	924	14,506	215	2,499
2017	6,458	44,873	6%	4,572	18,166	1,539	21,988	347	4,719
2018 and Thereafter	5,767	54,201	8%	3,259	16,913	1,960	29,715	548	7,573
	103,016	\$ 715,737	100%	72,370	\$ 289,088	29,199	\$ 406,974	1,447	\$ 19,675
Total Portfolio Square Feet	111,139			77,143		32,384		1,612	
Percent Occupied	92.7%			93.8%		90.2%		89.8%	

Note: Excludes buildings that are in the held for sale portfolio.

We renewed 79.7% and 79.9% of our leases up for renewal totaling approximately 9.8 million and 7.5 million square feet in 2007 and 2006, respectively. We attained 5.81% growth in net effective rents on these renewals during 2007. Our lease renewal percentages over the past three years have remained relatively consistent at a 70-80% success rate. We do not presently expect this renewal percentage in 2008 to differ from the past three years.

Development: Another source of growth in earnings is the development of additional properties. These properties should provide future earnings through income upon sale or from Rental Operations income as they are placed in service. We had 16.6 million square feet of property under development with total estimated costs upon completion of \$1.2 billion at December 31, 2007, compared to 10.6 million square feet and total costs of \$1.1 billion at December

31, 2006. We have increased our development pipeline during 2007 and will continue to pursue additional development opportunities, while focusing on pre-leasing as we closely monitor the strength of the national and local market economies.

The following table summarizes our properties under development as of December 31, 2007 (in thousands, except percentage data):

Anticipated In-Service Date	Square Feet	Percent Leased	Project Costs	Anticipated Stabilized Return
Held for Rental Buildings:				
1st Quarter 2008	3,753	32%	\$ 174,923	9.39%
2nd Quarter 2008	3,843	19%	231,851	8.76%
3rd Quarter 2008	1,778	23%	198,615	9.22%
Thereafter	633	60%	136,590	8.82%
	<u>10,007</u>	28%	<u>741,979</u>	9.04%
Service Operations Buildings:				
1st Quarter 2008	1,231	70%	50,999	8.69%
2nd Quarter 2008	1,044	88%	85,708	8.20%
3rd Quarter 2008	1,252	100%	78,374	8.43%
Thereafter	3,045	86%	240,766	8.11%
	<u>6,572</u>	86%	<u>455,847</u>	8.25%
Total	<u>16,579</u>	51%	<u>\$ 1,197,826</u>	8.74%

Acquisition and Disposition Activity: We continued to selectively dispose of non-strategic properties in 2007. Gross sales proceeds related to the dispositions of wholly owned held for rental properties were \$336.7 million, which included the disposition of a portfolio of eight office properties in the Cleveland market and a portfolio of twelve industrial properties in the St. Louis market. Our share of proceeds from sales of properties within unconsolidated joint ventures, in which we have less than a 100% interest, totaled \$30.1 million. In 2006, proceeds totaled \$139.9 million for the disposition of wholly owned held for rental properties and \$91.9 million for our share of property sales from unconsolidated joint ventures. Dispositions of wholly owned properties developed for sale rather than rental resulted in \$256.6 million

in proceeds in 2007 compared to \$188.6 million in 2006. We intend to continue to identify properties for disposition in order to recycle the proceeds into higher yielding assets. The level of 2008 dispositions will be impacted by the ability of the prospective buyers to obtain favorable financing given the current state of the capital markets.

In 2007, in addition to the acquisition of Bremner, we acquired \$117.0 million of income-producing properties and \$321.3 million of undeveloped land compared to \$948.4 million of income-producing properties and \$436.7 million of undeveloped land in 2006.

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, 2007, is as follows (in thousands, except number of properties and per share data):

	2007	2006	2005
Rental Operations revenues from Continuing Operations	\$ 823,869	\$ 781,552	\$ 631,611
Service Operations revenues from Continuing Operations	99,358	90,125	81,941
Earnings from Continuing Rental Operations	109,079	125,514	110,812
Earnings from Continuing Service Operations	52,034	53,196	44,278
Operating income	123,433	142,913	124,128
Net income available for common shareholders	217,692	145,095	309,183
Weighted average common shares outstanding	139,255	134,883	141,508
Weighted average common shares and potential dilutive common equivalents	149,614	149,393	155,877
Basic income per common share:			
Continuing operations	\$.70	\$.69	\$.61
Discontinued operations	\$.86	\$.39	\$ 1.58
Diluted income per common share:			
Continuing operations	\$.69	\$.68	\$.60
Discontinued operations	\$.86	\$.39	\$ 1.57
Number of in-service properties at end of year	688	696	660
In-service square footage at end of year	111,139	108,852	97,835

Comparison of Year Ended December 31, 2007 to Year Ended December 31, 2006

Rental Revenue from Continuing Operations

Overall, rental revenue from continuing operations increased from \$743.5 million in 2006 to \$794.5 million in 2007. The following table reconciles rental revenue from continuing operations by reportable segment to our total reported rental revenue from continuing operations for the years ended December 31, 2007 and 2006, respectively (in thousands):

	2007	2006
Office	\$ 547,478	\$ 534,369
Industrial	219,080	194,670
Other	27,930	14,509
Total	\$ 794,488	\$ 743,548

Both of our reportable segments that comprise Rental Operations (office and industrial) are within the real estate industry; however, the same economic and industry conditions do not affect each segment in the same manner. The primary causes of the increase in rental revenue from continuing operations, with specific references to a particular segment when applicable, are summarized below:

- In 2007, we acquired six new properties and placed 38 development projects in service.

These acquisitions and developments provided incremental revenues of \$2.9 million and \$16.6 million, respectively.

- Acquisitions and developments that were placed in service in 2006 provided \$12.4 million and \$25.1 million, respectively, of incremental revenue in 2007.
- We acquired an additional 31 properties in 2006 and later contributed them to an unconsolidated joint venture, resulting in a \$40.2 million reduction in revenues for the year ended December 31, 2007, as compared to the same period in 2006. Of these properties, 23 were contributed in the fourth quarter of 2006, seven were contributed in the second quarter of 2007 and one was contributed in the fourth quarter of 2007.
- Rental revenue includes lease termination fees. Lease termination fees relate to specific tenants who pay a fee to terminate their lease obligations before the end of the contractual lease term. Lease termination fees increased from \$16.1 million in 2006 to \$24.2 million in 2007.
- The remaining increase in rental revenues is primarily the result of an \$18.2 million increase in revenues from reimbursable rental expenses. This increase is largely offset by a corresponding increase in overall rental expenses.

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 develop properties. These earnings decreased from \$38.0 million in 2006 to \$29.4 million in 2007. During 2006, our joint ventures sold 22 non-strategic buildings, with our share of the net gain recorded through equity in earnings totaling \$18.8 million, compared to ten joint venture building sales in 2007, with \$8.0 million recorded to equity in earnings for our share of the net gains.

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, 2007 and 2006, respectively (in thousands):

	2007	2006
Rental Expenses:		
Office	\$ 144,320	\$ 143,567
Industrial	23,919	21,991
Other	8,435	3,519
Total	<u>\$ 176,674</u>	<u>\$ 169,077</u>
Real Estate Taxes:		
Office	\$ 63,572	\$ 55,963
Industrial	27,530	21,760
Other	7,033	6,015
Total	<u>\$ 98,135</u>	<u>\$ 83,738</u>

Of the overall \$7.6 million increase in rental expenses in 2007 compared to 2006, \$9.9 million was attributable to properties acquired and developments placed in service from January 1, 2006 through December 31, 2007. This increase was largely offset by a reduction in rental expenses of \$7.6 million resulting from the contribution of 31 properties to an unconsolidated joint venture in 2006 and 2007. Inclement weather conditions in the first quarter of 2007, an increase in utility rates and volume in the third quarter of 2007 due to unseasonably high temperatures and normal inflationary factors triggered the remaining increase in rental expenses.

Of the overall \$14.4 million increase in real estate taxes in 2007 compared to 2006, \$7.7 million was attributable to properties acquired and developments placed in service from January 1, 2006 through December 31, 2007. The remaining increase in real estate taxes was driven by increases in assessments in some of our markets.

Interest Expense

Interest expense from continuing operations remained fairly consistent from 2006 to 2007 at \$170.5 million in 2006, compared to \$168.4 million in 2007. While we maintained higher outstanding borrowings in 2007 compared to 2006, these higher borrowings were used to fund our increase in development activities and thus, the increased interest costs from these borrowings were capitalized into project costs rather than expensed.

Depreciation and Amortization Expense

Depreciation and amortization increased from \$232.7 million in 2006 to \$271.6 million in 2007 due to increases in our held-for-rental asset base from acquisitions and developments placed in service during 2006 and 2007.

Service Operations

Service Operations primarily consist of sales of properties developed or acquired with the intent to sell within a short period of time and the leasing, management, construction and development services for joint venture properties and properties owned by third parties. Leasing and management fees are dependent upon occupancy while construction and development services rely on the expansion of business operations of third party property owners. Earnings from Service Operations decreased slightly from \$53.2 million in 2006 to \$52.0 million in 2007. The following are the factors related to the decrease in earnings from Service Operations in 2007:

- Our Service Operations building development and sales program, whereby a building is developed or repositioned by us and then sold soon after

completion, is a significant component of earnings from operations and is often a significant driver of fluctuations in earnings from Service Operations between periods. During 2007, we generated pre-tax gains of \$34.7 million from the sale of 15 properties compared to \$44.6 million from the sale of nine properties in 2006. Partially offsetting the aforementioned decrease was a \$2.9 million reduction in income taxes on these gains on sale, with the net effect of decreased gains on sale in 2007 resulting in a \$7.0 million decrease in earnings from Service Operations.

- Increased net general contractor revenues drove a \$9.7 million increase in earnings from Service Operations from 2006 as the result of increased volume and margins and favorable settlement of previously existing warranty reserves.

General and Administrative Expense

General and administrative expense increased from \$35.8 million in 2006 to \$37.7 million in 2007. General and administrative expenses are comprised of two components. The first component is direct expenses that are not attributable to specific assets such as legal fees, audit fees, marketing costs, investor relations expenses and other corporate overhead. The second component is the unallocated indirect costs determined to be unrelated to the operation of our owned properties and Service Operations. Those indirect costs not allocated to these operations are charged to general and administrative expenses. There was a \$31.7 million increase in the overall pool of overhead costs in 2007 that was necessitated by our overall growth. The majority of this increase in the overall pool of overhead costs was necessary as the result of increased rental and service operations activity and thus, was allocated to rental operations, construction, development and leasing. Approximately \$1.5 million of the aforementioned increase in the overall overhead pool was not allocated to operations, which was the primary reason for the overall \$1.9 million increase to general and administrative expense.

Discontinued Operations

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

We classified the operations of 302 properties as discontinued operations as of December 31, 2007. These 302 properties consist of 253 industrial, 48 office and one retail property. As a result, we classified net income from operations, net of minority interest, of \$6.7 million, \$10.7 million and \$18.6 million as net income from discontinued operations for the years ended December 31, 2007, 2006 and 2005, respectively.

Of these properties, 32 were sold during 2007, 21 properties were sold during 2006, 234 properties were sold during 2005, and 15 operating properties are classified as held-for-sale at December 31, 2007. The gains on disposal of these properties, net of impairment adjustment and minority interest, of \$113.6 million, \$42.1 million and \$204.3 million for the years ended December 31, 2007, 2006 and 2005, respectively, are also reported in discontinued operations.

Comparison of Year Ended December 31, 2006 to Year Ended December 31, 2005

Rental Revenue from Continuing Operations

Overall, rental revenue from continuing operations increased from \$602.1 million in 2005 to \$743.5 million in 2006. The following table reconciles rental revenue from continuing operations by reportable segment to total reported rental revenue from continuing operations for the years ended December 31, 2006 and 2005, respectively (in thousands):

	2006	2005
Office	\$ 534,369	\$ 443,927
Industrial	194,670	148,359
Other	14,509	9,776
Total	<u>\$ 743,548</u>	<u>\$ 602,062</u>

Both of our reportable segments that comprise Rental Operations (office and industrial) are within the real estate industry; however, the same economic and industry conditions do not affect each segment in the same manner. The primary causes of the increase in rental revenue from continuing operations, with specific references to a particular segment when applicable, are summarized below:

- In 2006, we acquired 50 new properties and placed 27 development projects in service. These 2006 acquisitions and developments are the primary factor in the overall increase in rental revenue for the year ended 2006 compared to 2005 as they provided incremental revenues of \$73.8 million and \$9.3 million respectively. These acquisitions totaled \$948.4 million on 8.6 million square feet and were 99% leased at December 31, 2006.
- Acquisitions and developments that were placed in service in 2005 provided \$15.8 million and \$11.2 million, respectively, of incremental revenue in 2006.
- Rental revenue includes lease termination fees. Lease termination fees relate to specific tenants who pay a fee to terminate their lease obligations before the end of the contractual lease term.

Lease termination fees increased from \$7.3 million in 2005 to \$16.1 million in 2006.

- Our in-service occupancy increased from 92.7% at December 31, 2005, to 92.9% at December 31, 2006 and contributed to the remaining increase in rental revenue.

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 develop properties. These earnings increased from \$29.5 million in 2005 to \$38.0 million in 2006. During 2006, our joint ventures sold 22 non-strategic buildings, with our share of the net gain recorded through equity in earnings totaling \$18.8 million. During the second quarter of 2005, one of our ventures sold three buildings, with our share of the net gain recorded through equity in earnings totaling \$11.1 million.

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, 2006 and 2005, respectively (in thousands):

	2006	2005
Rental Expenses:		
Office	\$ 143,567	\$ 119,052
Industrial	21,991	18,264
Other	3,519	1,557
Total	<u>\$ 169,077</u>	<u>\$ 138,873</u>
Real Estate Taxes:		
Office	\$ 55,963	\$ 49,936
Industrial	21,760	17,758
Other	6,015	5,104
Total	<u>\$ 83,738</u>	<u>\$ 72,798</u>

Rental expenses and real estate taxes for 2006 have increased from 2005 by \$30.2 million and \$10.9 million, respectively, as the result of acquisition and development activity in 2005 and 2006 as well as from an increase in occupancy over the past two years.

Interest Expense

Interest expense increased from \$106.0 million in 2005 to \$170.5 million in 2006, as a result of the following:

- Interest costs on the unsecured line of credit increased by \$29.2 million from 2005 as the result of increased borrowings throughout the year, as well as increased interest rates.
- Interest costs on unsecured notes increased by \$10.2 million as the result of an overall increase in borrowings used mainly to fund acquisitions and development.
- Interest costs on secured debt increased by \$27.8 million as the result of the increase in borrowings in 2006.
- Offsetting the above increases, capitalized interest increased by \$26.8 million as the result of increased development activities.

Depreciation and Amortization Expense

Depreciation and amortization increased from \$203.1 million in 2005 to \$232.7 million in 2006 as the result of increases in our held-for-rental asset base from acquisitions and developments placed in service during 2005 and 2006.

Service Operations

Service Operations primarily consist of sales of properties developed or acquired with the intent to sell within a short period of time and the leasing, management, construction and development services for joint venture properties and properties owned by third parties. Leasing and management fees are dependent upon occupancy while construction and development services rely on the expansion of business operations of third-party property owners. Earnings from Service Operations increased from \$44.3 million in 2005 to \$53.2 million in 2006. The following are the factors related to the increase in earnings from Service Operations in 2006.

- Our Service Operations building development and sales program, whereby a building is developed or repositioned by us and then sold soon after completion, is a significant component of earnings from operations and is often a significant driver of fluctuations in earnings from Service Operations between periods. During

2006, we generated pre-tax gains of \$44.6 million from the sale of nine properties compared to \$29.9 million from the sale of ten properties in 2005. 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.

- Partially offsetting the increased 2006 gains from our Service Operations building development and sales program was the effect of a decreased focus on third-party construction services as well as the fact that in the first quarter of 2005, we recognized \$2.7 million of a non-recurring deferred gain associated with the sale of our landscaping operations in 2001.

General and Administrative Expense

General and administrative expense increased from \$31.0 million in 2005 to \$35.8 million in 2006. General and administrative expenses are comprised of two components. The first component is direct expenses that are not attributable to specific assets such as legal fees, audit fees, marketing costs, investor relations expenses and other corporate overhead. The second component is the unallocated indirect costs determined to be unrelated to the operation of our owned properties and Service Operations. Those indirect costs not allocated to these operations are charged to general and administrative expenses. The increase in general and administrative expenses from 2005 was largely attributable to an increase in our overall pool of overhead costs to support our current and anticipated future growth.

Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with 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 inherently subjective and based

on the existing business and market conditions, and are therefore continually evaluated based upon available information and experience. Note 2 to the Consolidated Financial Statements includes further discussion of our significant accounting policies. 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. To the extent that our joint ventures do not qualify as variable interest entities, we further assess under the guidelines of Emerging Issues Task Force ("EITF") Issue No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* ("EITF 04-5"); Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures* ("SOP 78-9"); Accounting Research Bulletin No. 51, *Consolidated Financial Statements*; and Statement of Financial Accounting Standard ("SFAS") No. 94, *Consolidation of All Majority-Owned Subsidiaries*, to determine if the venture should be consolidated. We have equity interests generally ranging from 10% to 50% in unconsolidated joint ventures that develop, own and operate rental properties and hold land for development. We consolidate those joint ventures that are considered to be variable interest entities where we are the primary beneficiary. For non-variable interest entities, we consolidate those joint ventures that we control through majority ownership interests or where we are the managing member and our partner does not have substantive 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.

To the extent that we contribute assets to a joint venture, our investment in joint venture is recorded at our cost basis in the assets that were contributed to the joint venture. To the extent that our cost basis is different than the basis reflected at the joint venture level, the basis difference is amortized over the life of the related asset and included in our share of equity in net income of the joint venture. In accordance with the provisions of SOP 78-9 and SFAS No. 66, *Accounting for Sales of Real Estate*, we recognize gains on the contribution or sale of real estate to joint ventures, relating solely to the outside partner's interest, to the extent the economic substance of the transaction is a sale.

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

We capitalize interest and direct and indirect 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.

We also capitalize direct and indirect 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 90% occupancy. In addition, all leasing commissions paid to third parties for new leases or lease renewals 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.

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 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.

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 to be 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 No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets*

(“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 and Related Assets: In accordance with SFAS 141, *Business Combinations*, 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 market leases are included in deferred leasing and other costs in the balance sheet and below market leases are included in other liabilities in the balance sheet; both 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 reviews and analyses 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.

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 regard 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 short-term 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;
- net cash provided by operating activities; and
- proceeds received from real estate dispositions

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

We expect to meet long-term liquidity requirements, such as scheduled mortgage and unsecured debt maturities, property acquisitions, financing of development activities and other non-recurring capital improvements, primarily from the following sources:

- issuance of additional equity, including common and preferred shares;

- issuance of additional debt securities;
- undistributed cash provided by operating activities; and
- proceeds received from real estate dispositions.

We do not believe the state of the credit markets will adversely affect our ability to secure long-term financing.

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, each of which would result in reduced cash flow from operations. However, we believe that these risks may be mitigated by our relatively strong market presence in most of our markets and the fact that we perform in-house credit reviews and analyses on major tenants and all significant leases before they are executed.

Debt and Equity Securities

We had an unsecured line of credit available at December 31, 2007. During 2007, the borrowing capacity on this line of credit was increased from \$1.0 billion to \$1.3 billion. Additionally, in July 2007, one of our consolidated majority owned subsidiaries entered into a lending agreement that included an additional unsecured line of credit. Our unsecured lines of credit as of December 31, 2007 are described as follows (in thousands):

Description	Borrowing Capacity	Maturity Date	Outstanding Balance at December 31, 2007
Unsecured Line of Credit	\$1,300,000	January 2010	\$ 543,000
Unsecured Line of Credit – Consolidated Subsidiary	\$ 30,000	July 2011	\$ 3,067

We use our line of credit to fund development activities, acquire additional rental properties and provide working capital. This line of credit 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. The interest rate on the amounts outstanding on the unsecured line of credit as of December 31, 2007 was LIBOR plus .525%, which for borrowings outstanding at December 31, 2007 ranged from 5.355% to 5.775%. Our line of credit also contains financial covenants that require us to meet financial ratios and defined levels of performance, including those related to variable interest indebtedness, consolidated net worth and debt-to-market capitalization. As of December 31, 2007, we were in compliance with all covenants under our line of credit.

The consolidated subsidiary's unsecured line of credit allows for borrowings up to \$30.0 million at a rate

of LIBOR plus .85% (equal to 5.73% for outstanding borrowings as of December 31, 2007). The unsecured line of credit is used to fund development activities within the consolidated subsidiary. The consolidated subsidiary's unsecured line of credit matures in July 2011 with a 12-month extension option.

At December 31, 2007, we had on file with the SEC an automatic shelf registration statement on Form S-3, relating to the offer and sale, from time to time, of an indeterminate amount of debt securities (including guarantees thereof), common shares, preferred shares, depository shares, warrants, stock purchase contracts and Units comprised of one or more of the securities described therein. From time to time, we expect to issue additional securities under this automatic shelf registration statement 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.

In February 2008, we issued \$300.0 million of 8.375% Series O Cumulative Redeemable Preferred Shares.

The indentures (and related supplemental indentures) governing our outstanding series of notes also require us to comply with financial ratios and other covenants regarding our operations. We were in compliance with all such covenants as of December 31, 2007.

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 at favorable prices to capture value created by us as well as to improve the overall quality of our portfolio by recycling sale proceeds into new properties with greater value creation opportunities.

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

One of our principal uses of our liquidity is to fund the recurring leasing/capital expenditures of our real estate investments. The following is a summary of our recurring capital expenditures for the years ended December 31, 2007, 2006 and 2005, respectively (in thousands):

	2007	2006	2005
Recurring tenant improvements	\$ 45,296	\$ 41,895	\$ 60,633
Recurring leasing costs	32,238	32,983	33,175
Building improvements	8,402	8,122	15,232
Totals	<u>\$ 85,936</u>	<u>\$ 83,000</u>	<u>\$ 109,040</u>

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 \$1.91, \$1.89 and \$1.87 for the years ended December 31, 2007, 2006 and 2005, respectively. We also paid a one-time special dividend of \$1.05 per share in 2005 as a result of the significant gain realized from an industrial portfolio sale. 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, 2007 totaled \$4.3 billion with a weighted average interest rate of 5.74% maturing at various dates through 2028. We had \$3.2 billion of unsecured notes, \$546.1 million outstanding on our unsecured lines of credit and \$524.4 million of secured debt outstanding at December 31, 2007. Scheduled principal amortization and maturities of such debt totaled \$249.8 million for the year ended December 31, 2007 and \$146.4 million of secured debt was transferred to unconsolidated subsidiaries in connection with the contribution of properties in 2007.

The following is a summary of the scheduled future amortization and maturities of our indebtedness at December 31, 2007 (in thousands, except percentage data):

Year	Future Repayments			Weighted Average Interest Rate of Future Repayments
	Scheduled Amortization	Maturities	Total	
2008	\$ 10,960	\$ 268,968	\$ 279,928	5.04%
2009	10,578	275,000	285,578	7.37%
2010	10,253	718,000	728,253	5.49%
2011	10,188	1,036,206	1,046,394	5.12%
2012	8,017	201,216	209,233	5.89%
2013	7,897	150,000	157,897	4.71%
2014	7,942	272,111	280,053	6.44%
2015	6,006	-	6,006	6.14%
2016	4,944	490,900	495,844	6.16%
2017	4,054	450,000	454,054	5.95%
2018	2,698	300,000	302,698	6.16%
Thereafter	20,522	50,000	70,522	6.84%
	\$ 104,059	\$ 4,212,401	\$4,316,460	5.74%

Historical Cash Flows

Cash and cash equivalents were \$48.0 million and \$68.5 million at December 31, 2007 and 2006, respectively.

The following highlights significant changes in net cash associated with our operating, investing and financing activities (in millions):

	Years Ended December 31,		
	2007	2006	2005
Net Cash Provided by Operating Activities	\$323.9	\$ 272.9	\$ 409.1
Net Cash Provided by (Used for) Investing Activities	(434.8)	(1,234.1)	323.2
Net Cash Provided by (Used for) Financing Activities	90.4	1,002.9	(711.2)

Operating Activities

Cash flows from operating activities provide the cash necessary to meet normal operational requirements of our Rental Operations and Service Operations 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 develop buildings with the intent to sell them at or soon after completion, which provides another significant source of operating cash flow activity. Highlights of such activity are as follows:

- During the year ended December 31, 2007, we incurred Service Operations building development costs of \$281.1 million, compared to \$281.7 million and \$83.4 million for the years ended December 31, 2006 and 2005, respectively. The difference is reflective of the increased activity in our held-for-sale pipeline. The pipeline of build-for-sale projects under construction as of December 31, 2007, has anticipated total costs upon completion of \$455.8 million.

- We sold 15 Service Operations buildings in 2007 compared to nine in 2006 and ten in 2005, receiving net proceeds of \$232.6 million, \$181.8 million and \$113.0 million, respectively. We recognized pre-tax gains of \$34.7 million, \$49.0 million and \$29.9 million on these sales for the years ended December 31, 2007, 2006 and 2005, respectively.

Investing Activities

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

- Sales of land and depreciated property provided \$480.9 million in net proceeds in 2007, compared to \$180.8 million in 2006 and \$1.1 billion in 2005. We sold portfolios of eight suburban office properties in our Cleveland market and twelve industrial properties in our St. Louis market during

2007, which together provided \$203.5 million of the net proceeds received in 2007. We sold a portfolio of eight industrial properties in our Cleveland market during 2006, which provided \$69.8 million of the net proceeds received in 2006. An industrial portfolio sale provided \$955.0 million of the \$1.1 billion of proceeds received in 2005. We continue to dispose of non-strategic and older properties as part of our capital recycling program to fund acquisitions and new development while improving the overall quality of our investment portfolio.

- We received financing distributions from unconsolidated subsidiaries (as a result of the sale of properties or recapitalization) of \$235.8 million in 2007, compared to \$296.6 million in 2006.
- Development costs for our held for rental portfolio increased to \$451.2 million for the year ended December 31, 2007, from \$385.5 million and \$210.0 million for the years ended December 31, 2006 and 2005, respectively. Management anticipated this continued increase, as a commitment to development activity was part of our strategic plan for 2007.
- During 2007, we paid cash of \$117.4 million for real estate acquisitions, including both \$36.1 million for the Bremner acquisition (with the remaining \$11.0 million paid through the issuance of Units in Duke Realty Limited Partnership) and \$55.4 million for a portfolio of industrial properties located in Seattle, Virginia and Houston, compared to \$735.3 million in 2006 and \$285.3 million in 2005. In addition, we paid cash of \$317.3 million for undeveloped land in 2007, compared to \$435.9 million in 2006 and \$135.8 million in 2005. The most significant activity in 2006 consisted of the purchase of a portfolio of suburban office and light industrial properties and undeveloped land in the Washington, D.C. area for \$867.6 million (of which \$713.5 million was paid in cash) and the purchase of a portfolio of industrial properties in Savannah, Georgia for \$196.2 million (of which \$125.9 million was paid in cash).

Financing Activities

The overall decline in cash provided by (used for) financing activities is a result of the financing that was required for the significant acquisitions in 2006. Specifically, the

following items highlight major fluctuations in net cash flow related to financing activities:

- In September 2007, we issued \$300.0 million of 6.50% senior unsecured notes due in 2018. The proceeds were used to partially pay down our unsecured line of credit. Our primary borrowing activity in 2006 consisted of a \$700.0 million secured term loan obtained in February 2006, which was priced at LIBOR +.525% and was paid in full in August 2006 with proceeds from two unsecured debt issuances: \$450.0 million of 5.95% senior unsecured notes due in 2017 and \$250.0 million of 5.625% senior unsecured notes due in 2011.
- In August 2007, we repaid \$100.0 million of 7.375% senior unsecured notes on the scheduled maturity date.
- In October 2007, we issued 7.0 million shares of our common stock for net proceeds of \$232.7 million. The net proceeds of the offering were used to partially pay down our \$1.3 billion unsecured line of credit.
- Also in October 2007, we redeemed all of the outstanding shares of our 7.990% Series B Cumulative Redeemable Preferred Stock at the liquidation amount of \$132.3 million.
- In November 2007, we repaid \$100.0 million of 3.5% senior unsecured notes on the scheduled maturity date.

Credit Ratings

We are currently assigned investment grade corporate credit ratings on our senior unsecured notes from Moody's Investors Service and Standard and Poor's Ratings Group. We have been assigned ratings of BBB+ and Baa1, respectively, by Standard and Poor's Ratings Group and Moody's Investors Service.

We also received investment grade credit ratings from the same rating agencies on our preferred stock. We have been assigned ratings of BBB and Baa2, respectively, by Standard and Poor's Ratings Group and Moody's Investors Service.

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 reduce 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.

In November 2007, we entered into \$300.0 million of cash flow hedges through forward-starting interest rate swaps to hedge interest rates on \$300.0 million of anticipated debt offerings in 2008. The swaps qualify for hedge accounting, with any changes in fair value recorded in Other Comprehensive Income ("OCI"). At December 31, 2007, the fair value of these swaps was approximately \$6.2 million in a liability position as the effective rate on the swaps was higher than current interest rates at December 31, 2007.

In July 2007, we entered into a \$21.0 million cash flow hedge through an interest rate swap to fix the rate on \$21.0 million of floating rate term debt, issued by one of our consolidated majority owned subsidiaries, which matures in July 2011. The swap qualifies for hedge accounting, with any changes in fair value recorded in OCI. At December 31, 2007, the fair value of this swap was approximately \$1.1 million in a liability position.

In August 2005, we entered into \$300.0 million of cash flow hedges through forward-starting interest rate swaps to hedge interest rates on \$300.0 million of anticipated debt offerings in 2007. The swaps qualified for hedge accounting, with any changes in fair value recorded in OCI. In conjunction with the September 2007 issuance of \$300.0 million of senior unsecured notes, we terminated these cash flow hedges as designated. The settlement amount received of \$10.7 million will be recognized to earnings through a reduction of interest expense over the term of the hedged cash flows. The ineffective portion of the hedge was insignificant.

In March 2005, we entered into \$300.0 million of cash flow hedges through forward-starting interest rate swaps to hedge interest rates on \$300.0 million of anticipated debt offerings in 2006. The swaps

qualified for hedge accounting, with any changes in fair value recorded in OCI. In March 2006, we issued \$150.0 million of 5.50% senior unsecured notes due 2016 and terminated a corresponding amount of the cash flow hedges designated for this transaction. The settlement amount paid of approximately \$800,000 will be recognized to earnings through interest expense ratably over the life of the senior unsecured notes and the ineffective portion of the hedge was insignificant. In August 2006, we issued \$450.0 million of 5.95% senior unsecured notes due 2017 and \$250.0 million of 5.63% senior unsecured notes due 2011 and terminated the remaining \$150.0 million of cash flow hedges. The settlement amount received of approximately \$1.6 million will be recognized to earnings through a reduction of interest expense ratably over the lives of the senior unsecured notes. The ineffective portion of the hedge was insignificant.

The effectiveness of our hedges will be evaluated throughout their lives using the hypothetical derivative method under which the change in fair value of the actual swap designated as the hedging instrument is compared to the change in fair value of a hypothetical swap.

Off Balance Sheet Arrangements

Investments in Unconsolidated Companies

We have equity interests generally ranging from 10% to 50% in unconsolidated companies that own and operate rental properties and hold land for development. The equity method of accounting (see Critical Accounting Policies) 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 investments in and advances to unconsolidated companies represents approximately 8% of our total assets as of December 31, 2007. 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 table presents summarized financial information for unconsolidated companies for the years ended December 31, 2007 and 2006, respectively (in thousands, except percentage data):

	Operating Joint Ventures		Development Joint Ventures		Total	
	2007	2006	2007	2006	2007	2006
Land, buildings and tenant improvements, net	\$ 1,543,467	\$ 1,336,929	\$ 227,875	\$ 66,080	\$ 1,771,342	\$ 1,403,009
Construction in progress	41,157	6,488	64,639	101,473	105,796	107,961
Land held for development	27,558	1,932	86,695	89,348	114,253	91,280
Other assets	158,978	116,442	35,638	32,138	194,616	148,580
	\$ 1,771,160	\$ 1,461,791	\$ 414,847	\$ 289,039	\$ 2,186,007	\$ 1,750,830
Indebtedness	\$ 873,611	\$ 368,807	\$ 115,509	\$ 49,163	\$ 989,120	417,970
Other liabilities	50,347	46,226	174,121	123,942	224,468	170,168
	923,958	415,033	289,630	173,105	1,213,588	588,138
Owners' equity	847,202	1,046,758	125,217	115,934	972,419	1,162,692
	\$ 1,771,160	\$ 1,461,791	\$ 414,847	\$ 289,039	\$ 2,186,007	\$ 1,750,830
Rental revenue	\$ 207,584	\$ 155,162	\$ 8,271	\$ 2,024	\$ 215,855	\$ 157,186
Net income (loss)	\$ 40,099	\$ 66,059	\$ 1,626	\$ (74)	\$ 41,725	\$ 65,985
Total square feet	34,046	32,372	4,491	3,323	38,537	35,695
Percent leased	92.67%	92.79%	73.28%	48.67%	90.34%	88.69%
Company ownership percentage	10%-50%	10%-50%	50%	50%		

We do not have any relationships with unconsolidated entities or financial partnerships ("special purpose entities") that have been established solely for the purpose of facilitating off-balance sheet arrangements.

Contractual Obligations

At December 31, 2007, we are subject to certain contractual payment obligations as described in the table below:

Contractual Obligations	Payments Due by Period						
	Total	2008	2009	2010	2011	2012	Thereafter
Long-term debt (1)	\$ 5,048,222	\$ 483,093	\$ 477,318	\$ 354,520	\$ 1,201,778	\$ 324,149	\$ 2,207,364
Lines of credit (2)	608,569	30,116	30,116	545,170	3,167	-	-
Share of mortgage debt of unconsolidated joint ventures (3)	996,309	46,570	81,073	183,496	36,245	74,760	574,165
Ground leases	96,388	2,289	2,483	2,606	2,654	2,743	83,613
Operating leases	726	443	215	44	18	6	-
Development and construction backlog costs (4)	771,111	707,611	63,500	-	-	-	-
Future land and building acquisitions (5)	158,904	158,904	-	-	-	-	-
Service contracts (6)	3,590	2,314	875	155	133	113	-
Other (7)	3,196	355	356	358	359	594	1,174
Total Contractual Obligations	\$ 7,687,015	\$ 1,431,695	\$ 655,936	\$ 1,086,349	\$ 1,244,354	\$ 402,365	\$ 2,866,316

(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, 2007.

(2) Our unsecured lines of credit consist of an operating line of credit that matures January 2010 and the line of credit of a consolidated subsidiary that matures July 2011.

(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, 2007.

(4) Represents estimated remaining costs on the completion of held-for-rental, build-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 customary closing conditions. In most cases we may withdraw from land purchase contracts with the seller's only recourse being earnest money deposits already made.

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

(7) Represents other contractual obligations.

Related Party Transactions

We provide property management, leasing, construction and other tenant related services to unconsolidated companies in which we have equity interests. For the years ended December 31, 2007, 2006 and 2005, respectively, we received from these unconsolidated companies management fees of \$7.1 million, \$4.4 million and \$4.8 million, leasing fees of \$4.2 million, \$2.9 million and \$4.3 million and construction and development fees of \$13.1 million, \$19.1 million and \$2.0 million. We recorded these fees based on contractual terms that approximate market rates for these types of services, and we have eliminated our ownership percentages of these fees in the consolidated financial statements.

Commitments and Contingencies

We have guaranteed the repayment of \$79.3 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 also have guaranteed the repayment of secured and unsecured loans of seven of our unconsolidated subsidiaries. At December 31, 2007, the outstanding balance on these loans was approximately \$219.8 million. Additionally, we guaranteed \$29.0 million of secured indebtedness related to a property sold to a third party in 2006. Management believes that the value of the real estate exceeds the loan balance and that we will not be required to satisfy these guarantees.

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 acquisitions of land and buildings totaling \$158.9 million. In most cases we may withdraw from land purchase contracts with the seller's only recourse being earnest money deposits already made.

In October 2000, we sold or contributed industrial properties and undeveloped land with a fair value of \$487.0 million to a joint venture (Dugan Realty LLC) in which we have a 50% interest and recognized a net gain of \$35.2 million. In connection with this transaction, the joint venture partners were given an option to put up to a \$50.0 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 \$50.0 million liability.

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

We adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* ("FIN 48"), on January 1, 2007. The adoption of FIN 48 resulted in an additional tax exposure of approximately \$1.7 million recorded as an adjustment to the opening balance of Distributions in Excess of Net Income. As of December 31, 2007, tax returns for the calendar years 2004 through 2007 remain subject to examination by the Internal Revenue Service ("IRS") and various state and local tax jurisdictions. Our uncertain tax positions are immaterial both individually and in the aggregate primarily due to our tax status as a REIT.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosure about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We do not expect SFAS 157 to have a material effect when adopted.

In January 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial*

Liabilities ("SFAS 159"). SFAS 159 provides a "Fair Value Option" under which a company may irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities. This Fair Value Option will be available on a contract-by-contract basis with changes in fair value recognized in earnings as those changes occur. The effective date for SFAS 159 is the beginning of each reporting entity's first fiscal year end that begins after November 15, 2007. We will not elect the Fair Value Option for any of our financial assets or liabilities.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* ("SFAS 141R") and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment to ARB No. 51* ("SFAS 160"). SFAS 141R and SFAS 160 require most identifiable assets, liabilities, noncontrolling interests and goodwill acquired in a business combination to be recorded at "full fair value" and require noncontrolling interests (previously referred to as minority interests) to be reported as a component of equity, which changes the accounting for transactions with noncontrolling interest holders. Both Statements are effective for periods beginning on or after December 15, 2008, and earlier adoption is prohibited. SFAS 141R will be applied to business combinations occurring after the effective date. SFAS 160 will be applied prospectively to all noncontrolling

interests, including any that arose before the effective date. We are currently evaluating the impact of adopting SFAS 141R and SFAS 160 on our results of operations and financial position.

Quantitative and Qualitative Disclosure About Market Risks

We are exposed to interest rate changes primarily as a result of our line of credit and long-term debt borrowings. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve our objectives, we borrow primarily at fixed rates and may enter into derivative financial instruments such as interest rate swaps, caps and treasury locks in order to mitigate our interest rate risk on a related financial instrument. We do not enter into derivative or interest rate transactions for speculative purposes.

Our interest rate risk is monitored using a variety of techniques. The table below presents the principal amounts (in thousands) of the expected annual maturities, weighted average interest rates for the average debt outstanding in the specified period, fair values and other terms required to evaluate the expected cash flows and sensitivity to interest rate changes.

	2008	2009	2010	2011	2012	Thereafter	Total	Fair Value
Fixed rate secured debt	\$ 54,248	\$ 9,868	\$ 9,503	\$ 21,542	\$ 8,403	\$ 411,859	\$ 515,423	\$ 482,655
Weighted average interest rate	5.77%	6.95%	6.88%	7.17%	6.74%	6.04%		
Variable rate secured debt	\$ 680	\$ 710	\$ 750	\$ 785	\$ 830	\$ 5,215	\$ 8,970	\$ 8,970
Weighted average interest rate	3.73%	3.72%	3.71%	3.70%	3.70%	3.87%		
Fixed rate unsecured notes	\$225,000	\$275,000	\$175,000	\$1,021,000	\$200,000	\$1,350,000	\$3,246,000	\$3,148,645
Weighted average interest rate	4.87%	7.39%	5.37%	5.08%	5.87%	6.06%		
Unsecured lines of credit	\$ -	\$ -	\$543,000	\$ 3,067	\$ -	\$ -	\$ 546,067	\$ 546,067
Rate at December 31, 2007	N/A	N/A	5.51%	5.73%	N/A	N/A		

As the table incorporates only those exposures that exist as of December 31, 2007, it does not consider those exposures or positions that could arise after that date. As a result, our ultimate realized gain or loss

with respect to interest rate fluctuations will depend on the exposures that arise during the period, our hedging strategies at that time, and interest rates.

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 company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's 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, 2007 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, 2007, 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 audit report on Duke's internal control over financial reporting.



Dennis D. Oklak
Chairman 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, 2007 and 2006 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, 2007. We have also audited the Company's internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management's report on internal control. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 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 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, 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, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, Duke Realty Corporation and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

KPMG LLP

Indianapolis, Indiana
February 29, 2008

DUKE REALTY CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets
As of December 31,
(in thousands, except per share amounts)

	2007	2006
ASSETS		
Real estate investments:		
Land and improvements	\$ 872,372	\$ 844,091
Buildings and tenant improvements	4,600,408	4,211,602
Construction in progress	412,729	359,765
Investments in and advances to unconsolidated companies	601,801	628,323
Land held for development	912,448	737,752
	<u>7,399,758</u>	<u>6,781,533</u>
Accumulated depreciation	(951,375)	(867,079)
Net real estate investments	6,448,383	5,914,454
Real estate investments and other assets held-for-sale	273,591	512,925
Cash and cash equivalents	48,012	68,483
Accounts receivable, net of allowance of \$1,359 and \$1,088	29,009	24,118
Straight-line rent receivable, net of allowance of \$2,886 and \$1,915	110,737	105,319
Receivables on construction contracts, including retentions	66,925	64,768
Deferred financing costs, net of accumulated amortization of \$29,170 and \$19,492	55,987	62,277
Deferred leasing and other costs, net of accumulated amortization of \$150,702 and \$127,155	374,635	311,553
Escrow deposits and other assets	254,702	174,698
	<u>\$ 7,661,981</u>	<u>\$ 7,238,595</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Indebtedness:		
Secured debt	\$ 524,393	\$ 515,192
Unsecured notes	3,246,000	3,129,653
Unsecured lines of credit	546,067	317,000
	<u>4,316,460</u>	<u>3,961,845</u>
Liabilities of properties held for sale	8,954	155,185
Construction payables and amounts due subcontractors, including retentions	142,655	136,508
Accrued expenses:		
Real estate taxes	63,796	59,276
Interest	54,631	52,106
Other	59,221	63,217
Other liabilities	148,013	118,901
Tenant security deposits and prepaid rents	34,535	31,121
Total liabilities	<u>4,828,265</u>	<u>4,578,159</u>
Minority interest	83,683	156,853
Shareholders' equity:		
Preferred shares (\$.01 par value); 5,000 shares authorized; 2,976 and 3,241 shares issued and outstanding	744,000	876,250
Common shares (\$.01 par value); 250,000 shares authorized; 146,175 and 133,921 shares issued and outstanding	1,462	1,339
Additional paid-in capital	2,632,615	2,196,388
Accumulated other comprehensive income (loss)	(1,279)	5,435
Distributions in excess of net income	(626,765)	(575,829)
Total shareholders' equity	<u>2,750,033</u>	<u>2,503,583</u>
	<u>\$ 7,661,981</u>	<u>\$ 7,238,595</u>

See accompanying Notes to Consolidated Financial Statements.

DUKE REALTY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations
For the Years Ended December 31,
(in thousands, except per share amounts)

	2007	2006	2005
RENTAL OPERATIONS			
Revenues:			
Rental revenue from continuing operations	\$ 794,488	\$ 743,548	\$ 602,062
Equity in earnings of unconsolidated companies	29,381	38,004	29,549
	<u>823,869</u>	<u>781,552</u>	<u>631,611</u>
Operating expenses:			
Rental expenses	176,674	169,077	138,873
Real estate taxes	98,135	83,738	72,798
Interest expense	168,358	170,484	106,047
Depreciation and amortization	271,623	232,739	203,081
	<u>714,790</u>	<u>656,038</u>	<u>520,799</u>
Earnings from continuing rental operations	<u>109,079</u>	<u>125,514</u>	<u>110,812</u>
SERVICE OPERATIONS			
Revenues:			
General contractor gross revenue	280,537	308,562	380,173
General contractor costs	(246,872)	(284,633)	(348,263)
Net general contractor revenue	33,665	23,929	31,910
Service fee revenue	31,011	21,633	20,149
Gain on sale of service operations properties	34,682	44,563	29,882
	<u>99,358</u>	<u>90,125</u>	<u>81,941</u>
Total service operations revenue	<u>99,358</u>	<u>90,125</u>	<u>81,941</u>
Operating expenses	<u>47,324</u>	<u>36,929</u>	<u>37,663</u>
Earnings from service operations	<u>52,034</u>	<u>53,196</u>	<u>44,278</u>
General and administrative expense	(37,680)	(35,797)	(30,962)
Operating income	<u>123,433</u>	<u>142,913</u>	<u>124,128</u>
OTHER INCOME (EXPENSE)			
Interest and other income, net	12,135	10,450	4,637
Earnings from sale of land, net of impairment adjustments	33,422	7,791	14,201
Minority interest in earnings of common unitholders	(6,608)	(9,544)	(8,713)
Other minority interest in earnings of subsidiaries	(3,186)	(247)	(1,438)
Income from continuing operations	<u>159,196</u>	<u>151,363</u>	<u>132,815</u>
Discontinued operations:			
Net income from discontinued operations, net of minority interest	6,706	10,651	18,554
Gain on sale of depreciable property, net of impairment adjustments and minority interest	113,565	42,133	204,293
Income from discontinued operations	<u>120,271</u>	<u>52,784</u>	<u>222,847</u>
Net income	279,467	204,147	355,662
Dividends on preferred shares	(58,292)	(56,419)	(46,479)
Adjustments for redemption of preferred shares	(3,483)	(2,633)	-
Net income available for common shareholders	<u>\$ 217,692</u>	<u>\$ 145,095</u>	<u>\$ 309,183</u>
Basic net income per common share:			
Continuing operations	\$.70	\$.69	\$.61
Discontinued operations	.86	.39	1.58
Total	<u>\$ 1.56</u>	<u>\$ 1.08</u>	<u>\$ 2.19</u>
Diluted net income per common share:			
Continuing operations	\$.69	\$.68	\$.60
Discontinued operations	.86	.39	1.57
Total	<u>\$ 1.55</u>	<u>\$ 1.07</u>	<u>\$ 2.17</u>
Weighted average number of common shares outstanding	<u>139,255</u>	<u>134,883</u>	<u>141,508</u>
Weighted average number of common shares and potential dilutive common equivalents	<u>149,614</u>	<u>149,393</u>	<u>155,877</u>

See accompanying Notes to Consolidated Financial Statements.

DUKE REALTY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Years Ended December 31,
(in thousands)

	2007	2006	2005
Cash flows from operating activities:			
Net income	\$ 279,467	\$ 204,147	\$ 355,662
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of buildings and tenant improvements	214,477	206,999	204,377
Amortization of deferred leasing and other costs	63,214	47,269	49,793
Amortization of deferred financing costs	11,212	8,617	6,154
Minority interest in earnings	17,743	14,953	31,493
Straight-line rent adjustment	(16,843)	(20,795)	(22,519)
Earnings from land and depreciated property sales	(154,493)	(49,614)	(238,060)
Build-for-sale operations, net	(84,547)	(148,849)	(6,295)
Construction contracts, net	(25,818)	1,749	16,196
Other accrued revenues and expenses, net	24,150	26,752	15,356
Operating distributions received in excess of (less than) equity in earnings from unconsolidated companies	(4,631)	(18,339)	(3,055)
Net cash provided by operating activities	323,931	272,889	409,102
Cash flows from investing activities:			
Development of real estate investments	(451,162)	(385,516)	(209,990)
Acquisition of real estate investments and related intangible assets	(116,021)	(735,294)	(285,342)
Acquisition of land held for development	(317,324)	(435,917)	(135,771)
Recurring tenant improvements	(45,296)	(41,895)	(60,633)
Recurring leasing costs	(32,238)	(32,983)	(33,175)
Recurring building improvements	(8,402)	(8,122)	(15,232)
Other deferred leasing costs	(39,387)	(22,429)	(19,425)
Other deferred costs and other assets	644	880	(20,281)
Proceeds from land and depreciated property sales, net	480,943	180,825	1,134,667
Capital distributions from unconsolidated companies	235,754	296,573	-
Capital contributions and advances to unconsolidated companies, net	(142,330)	(50,182)	(31,599)
Net cash provided by (used for) investing activities	(434,819)	(1,234,060)	323,219
Cash flows from financing activities:			
Proceeds from issuance of common shares	239,605	-	-
Payments for repurchases of common shares	-	(101,282)	(287,703)
Proceeds from exercise of stock options	1,197	6,672	3,945
Proceeds from issuance of preferred shares, net	-	283,994	-
Payments for redemption of preferred shares	(132,272)	(75,010)	-
Redemption of limited partner units	-	-	(2,129)
Proceeds from unsecured debt issuance	340,160	1,429,497	400,000
Payments on unsecured debt	(223,657)	(350,000)	(665,000)
Proceeds from issuance of secured debt	-	1,029,426	-
Payments on secured indebtedness including principal amortization	(24,780)	(750,354)	(46,675)
Borrowings (payments) on lines of credit, net	229,067	(66,000)	383,000
Distributions to common shareholders	(265,698)	(255,502)	(264,980)
Distributions to common shareholders – special dividends	-	-	(143,836)
Distributions to preferred shareholders	(58,292)	(56,419)	(46,479)
Distributions to minority interest, net	(19,576)	(24,207)	(26,653)
Distributions to minority interest – special distributions	-	-	(14,069)
Payment for capped call option	-	(26,967)	-
Cash settlement of interest rate swaps	10,747	733	-
Deferred financing costs	(6,084)	(41,659)	(599)
Net cash provided by (used for) financing activities	90,417	1,002,922	(711,178)
Net increase (decrease) in cash and cash equivalents	(20,471)	41,751	21,143
Cash and cash equivalents at beginning of year	68,483	26,732	5,589
Cash and cash equivalents at end of year	\$ 48,012	\$ 68,483	\$ 26,732
Other non-cash items:			
Assumption of debt for real estate acquisitions	\$ 34,259	\$ 217,520	\$ 11,743
Contributions of real estate investments to, net of debt assumed by, unconsolidated companies	\$ 146,593	\$ 505,440	\$ -
Conversion of Limited Partner Units to common shares	\$ 179,092	\$ 39,918	\$ 18,085
Issuance of Limited Partner Units for acquisition	\$ 11,020	\$ -	\$ -
Common shares repurchased and retired, not settled	\$ -	\$ -	\$ 9,357
Issuance of Limited Partner Units for acquisition of minority interest	\$ -	\$ -	\$ 15,000

See accompanying Notes to Consolidated Financial Statements.

DUKE REALTY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity (in thousands, except per share data)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Distributions In Excess of Net Income	Total
Balance at December 31, 2004	\$ 657,250	\$ 1,429	\$ 2,538,461	\$ (6,547)	\$ (364,724)	\$ 2,825,869
Comprehensive Income:						
Net income	-	-	-	-	355,662	355,662
Losses on derivative instruments	-	-	-	(571)	-	(571)
Comprehensive income	-	-	-	-	-	355,091
Issuance of common shares	-	2	4,141	-	-	4,143
Acquisition of minority interest	-	6	18,079	-	-	18,085
Tax benefits from employee stock plans	-	-	245	-	-	245
Stock based compensation expense	-	-	2,032	-	-	2,032
Dividends on long-term compensation plans	-	-	216	-	(216)	-
Retirement of common shares	-	(90)	(296,970)	-	-	(297,060)
Distributions to preferred shareholders	-	-	-	-	(46,479)	(46,479)
Distributions to common shareholders (\$1.87 per share)	-	-	-	-	(265,076)	(265,076)
Distributions to common shareholders - Special (\$1.05 per share)	-	-	-	-	(144,052)	(144,052)
Balance at December 31, 2005	\$ 657,250	\$ 1,347	\$ 2,266,204	\$ (7,118)	\$ (464,885)	\$ 2,452,798
Comprehensive Income:						
Net income	-	-	-	-	204,147	204,147
Gains on derivative instruments	-	-	-	12,553	-	12,553
Comprehensive income	-	-	-	-	-	216,700
Issuance of common shares	-	5	6,181	-	-	6,186
Redemption of Preferred Series I shares	(75,000)	-	(10)	-	-	(75,010)
Adjustment for carrying value of preferred stock redemption	-	-	2,633	-	(2,633)	-
Issuance of Preferred Series M shares	184,000	-	(6,266)	-	-	177,734
Issuance of Preferred Series N shares	110,000	-	(3,740)	-	-	106,260
Acquisition of minority interest	-	10	39,908	-	-	39,918
Capped call option	-	-	(26,967)	-	-	(26,967)
Tax benefits from employee stock plans	-	-	606	-	-	606
Stock based compensation expense	-	-	8,892	-	-	8,892
Dividends on long-term compensation plans	-	-	849	-	(849)	-
Distributions to preferred shareholders	-	-	-	-	(56,419)	(56,419)
Retirement of common shares	-	(23)	(91,902)	-	-	(91,925)
Distributions to common shareholders (\$1.89 per share)	-	-	-	-	(255,190)	(255,190)
Balance at December 31, 2006	\$ 876,250	\$ 1,339	\$ 2,196,388	\$ 5,435	\$ (575,829)	\$ 2,503,583
Effect of implementing new accounting principle	-	-	-	-	(1,717)	(1,717)
Balance at January 1, 2007	\$ 876,250	\$ 1,339	\$ 2,196,388	\$ 5,435	\$ (577,546)	\$ 2,501,866
Comprehensive Income:						
Net income	-	-	-	-	279,467	279,467
Losses on derivative instruments	-	-	-	(6,714)	-	(6,714)
Comprehensive Income	-	-	-	-	-	272,753
Issuance of common shares	-	73	239,532	-	-	239,605
Redemption of Preferred Series B shares	(132,250)	-	(22)	-	-	(132,272)
Adjustment for carrying value of preferred stock redemption	-	-	3,483	-	(3,483)	-
Stock based compensation plan activity	-	2	14,190	-	(1,213)	12,979
Acquisition of minority interest	-	48	179,044	-	-	179,092
Distributions to preferred shareholders	-	-	-	-	(58,292)	(58,292)
Distributions to common shareholders (\$1.91 per share)	-	-	-	-	(265,698)	(265,698)
Balance at December 31, 2007	\$ 744,000	\$ 1,462	\$ 2,632,615	\$ (1,279)	\$ (626,765)	\$ 2,750,033

See accompanying Notes to Consolidated Financial Statements.

DUKE REALTY CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) The Company

Our Rental Operations (see Note 8) are conducted through Duke Realty Limited Partnership ("DRLP"). We owned approximately 94.9% of the common partnership interests of DRLP ("Units") at December 31, 2007. The remaining Units in DRLP are redeemable for shares of our common stock on a one-to-one basis and earn dividends at the same rate as shares of our common stock. We conduct our Service Operations (see Note 8) through Duke Realty Services LLC and Duke Realty Services Limited Partnership, of which we are the sole general partner and of which DRLP is the sole limited partner. We also conduct Service Operations through Duke Construction Limited Partnership, which is effectively 100% owned by DRLP. The consolidated financial statements include our accounts and our majority-owned or controlled subsidiaries, and the terms "we", "us" and "our" refer to Duke Realty Corporation and subsidiaries (the "Company") and those entities owned or controlled by the Company.

(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 2006 and 2005 balances have been reclassified to conform to the 2007 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 with 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. We do not capitalize any costs attributable to downtime or to unsuccessful projects.

We capitalize direct and indirect 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, we capitalize 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.

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.

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. 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.

We allocate the purchase price of acquired properties to net tangible and identified intangible assets based on their respective fair values, based on all pertinent information available and adjusted based on changes in that information in no event to exceed one year from the date of acquisition. 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 market leases are included in deferred leasing and other costs in the balance sheet and below market leases are included in other liabilities in the balance sheet; both 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.

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. To the extent that our joint ventures do not qualify as variable interest entities, we further assess under the guidelines of Emerging Issues Task Force ("EITF") Issue No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* ("EITF 04-5"); Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures* ("SOP 78-9"); Accounting Research Bulletin No. 51, *Consolidated Financial Statements*; and Statement of Financial Accounting Standard ("SFAS") No. 94, *Consolidation of All Majority-Owned Subsidiaries*, to determine if the venture should be consolidated. We have equity interests generally ranging from 10% to 50% in unconsolidated joint ventures that develop, own and operate rental properties and hold land for development. We consolidate those joint ventures that are considered to be variable interest entities where we are the primary beneficiary. For non-variable interest entities, we consolidate those joint ventures that we control through majority ownership interests or where we are the managing member and our partner does not have substantive 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.

To the extent that we contribute assets to a joint venture, our investment in joint venture is recorded at our cost basis in the assets that were contributed to the joint venture. To the extent that our cost

basis is different than the basis reflected at the joint venture level, the basis difference is amortized over the life of the related asset and included in our share of equity in net income of the joint venture. In accordance with the provisions of SOP 78-9 and SFAS No. 66, *Accounting for Sales of Real Estate* ("SFAS 66"), we recognize gains on the contribution or sale of real estate to joint ventures, relating solely to the outside partner's interest, to the extent the economic substance of the transaction is a sale.

Cash Equivalents

Investments with an original maturity of three months or less 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. We include lease incentive costs, which are payments made on behalf of a tenant to sign a lease, in deferred leasing costs and amortize them on a straight-line basis over the respective lease terms as a reduction of rental revenues. We include as lease incentives amounts funded to construct tenant improvements owned by the tenant. Unamortized costs are charged to expense upon the early termination of the lease or upon early payment of the financing.

Minority Interest

Minority interests relate to the minority ownership interests in DRLP and interests in consolidated property partnerships that are not wholly-owned. Minority interest is subsequently adjusted for additional contributions, distributions to minority holders and the minority holders' proportionate share of the net earnings or losses of each respective entity.

The value of each DRLP Unit that is redeemed is measured on the date of its redemption and the difference between the aggregate book value and the purchase price of the Units increases the recorded value of the Company's net assets.

Revenues

Rental Operations

The timing of revenue recognition under an operating lease is determined based upon ownership of the tenant improvements. If we are the owner of the tenant improvements, revenue recognition commences after the improvements are completed and the tenant takes possession or control of the space. In contrast, if we determine that the tenant allowances we are funding are lease incentives, then we commence revenue recognition when possession or control of the space is turned over to the tenant. Rental income from leases with scheduled rental increases during their terms is recognized on a straight-line basis.

We record lease termination fees when a tenant has executed a definitive termination agreement with us and the payment of the termination fee is not subject to any conditions that must be met or waived before the fee is due to us.

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.

Unbilled receivables on construction contracts totaled \$33.1 million and \$32.4 million at December 31, 2007 and 2006, respectively.

Property Sales

Gains on sales of all properties are recognized in accordance with SFAS 66. The specific timing of the sale is measured against various criteria in SFAS 66 related to the terms of the transactions and any continuing involvement in the form of management or financial assistance from the seller associated with the properties. We make judgments based on the specific terms of each transaction as to the amount of the total profit from the transaction that we recognize considering factors such as continuing ownership interest we may have with the buyer ("partial sales") and our level of future involvement with the property or the buyer that acquires the assets. If the sales criteria are not met, we defer gain

recognition and account for the continued operations of the property by applying the finance, installment or cost recovery methods, as appropriate, until the full accrual sales criteria are met. Estimated future costs to be incurred after completion of each sale are included in the determination of the gain on sales.

Gains from sales of depreciated property are included in discontinued operations and the proceeds from the sale of these held-for-rental properties are classified in the investing activities section of the Consolidated Statements of Cash Flows.

Gains or losses from our sale of properties that were developed or repositioned with the intent to sell and not for long-term rental are classified as gain on sale of Service Operation properties in the Consolidated Statements of Operations. All activities and proceeds received from the development and sale of these buildings are classified in the operating activities section of the Consolidated Statements of Cash Flows.

Net Income Per Common Share

Basic net income per common share is computed by dividing net income available for common shareholders 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 outstanding and minority Units outstanding, including any dilutive potential common equivalents for the period.

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

	2007	2006	2005
Basic net income available for common shareholders	\$ 217,692	\$ 145,095	\$ 309,183
Minority interest in earnings of common unitholders	14,399	14,238	29,649
Diluted net income available for common shareholders	\$ 232,091	\$ 159,333	\$ 338,832
Weighted average number of common shares outstanding	139,255	134,883	141,508
Weighted average partnership Units outstanding	9,204	13,186	13,551
Dilutive shares for stock-based compensation plans (1)	1,155	1,324	818
Weighted average number of common shares and potential dilutive common equivalents	149,614	149,393	155,877

(1) Excludes the effect of outstanding stock options, as well as the Exchangeable Senior Notes ("Exchangeable Notes") issued in 2006, that have an anti-dilutive effect on earnings per share for the periods presented.

A joint venture partner in one of our unconsolidated companies has the option to convert a portion of its ownership in the joint venture to our common shares. The effect of this option on earnings per share was anti-dilutive for the years ended December 31, 2007, 2006 and 2005.

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 shareholders. We are also generally 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, 2007, 2006 and 2005 (in thousands):

	2007	2006	2005
Net income	\$ 279,467	\$ 204,147	\$ 355,662
Book/tax differences	84,120	66,303	129,522
Taxable income before adjustments	363,587	270,450	485,184
Less: capital gains	(160,428)	(78,246)	(283,498)
Adjusted taxable income subject to 90% dividend requirement	\$ 203,159	\$ 192,204	\$ 201,686

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

	2007	2006	2005
Cash dividends paid	\$ 324,085	\$ 311,615	\$ 455,606
Cash dividends declared and paid in subsequent year that apply to current year	48,126	-	29,578
Cash dividends declared and paid in current year that apply to previous year	(7,795)	(21,782)	-
Less: Capital gain distributions	(160,428)	(78,246)	(283,498)
Less: Return of capital	-	(15,018)	-
Total dividends paid deduction attributable to adjusted taxable income	\$ 203,988	\$ 196,569	\$ 201,686

A summary of the tax characterization of the dividends paid for the years ended December 31, 2007, 2006 and 2005 follows:

	2007	2006	2005
<u>Common Shares</u>			
Ordinary income	63.1%	64.2%	44.2%
Return of capital	-	5.3%	-
Capital gains	36.9%	30.5%	55.8%
	100.0%	100.0%	100.0%
<u>Preferred Shares</u>			
Ordinary income	63.1%	73.7%	44.2%
Capital gains	36.9%	26.3%	55.8%
	100.0%	100.0%	100.0%

We recorded federal and state income taxes of \$9.0 million, \$6.8 million and \$5.6 million for 2007, 2006 and 2005, respectively, which were primarily attributable to the earnings of our taxable REIT subsidiaries. We

paid federal and state income taxes of \$10.1 million, \$4.3 million and \$8.7 million for 2007, 2006 and 2005, respectively. The taxable REIT subsidiaries have no significant deferred income tax items.

Stock Based Compensation

For all issuances of stock-based awards prior to 2002, we applied the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), and related interpretations, in accounting for our stock-based compensation.

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 shares on the date of the grant.

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

The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS 123 to all stock-based employee compensation for the year ended December 31, 2005 (in thousands, except per share data):

	2005
Net income available for common shareholders, as reported	\$ 309,183
Add: Stock-based employee compensation expense included in net income determined under fair value method	1,116
Deduct: Total stock-based compensation expense determined under fair value method for all awards	<u>(1,285)</u>
Pro forma net income available for common shareholders	<u>\$ 309,014</u>
Basic net income per common share	
As reported	\$2.19
Pro forma	\$2.18
Diluted net income per common share	
As reported	\$2.17
Pro forma	\$2.17

Effective January 1, 2006, we adopted SFAS No. 123(R), *Share Based Payment*, ("SFAS 123(R)"), using the modified prospective application method. Under this method, as of January 1, 2006, we applied the provisions of SFAS 123(R) to new and modified awards, as well as to the nonvested portion of awards granted before the required effective date and outstanding at such time.

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, both of which qualify for cash flow hedge accounting treatment. 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.

If a derivative qualifies as a cash flow hedge, the change in fair value of the derivative is recognized in other comprehensive income to the extent the hedge is effective, while the ineffective portion of the derivative's change in fair value is recognized in earnings. Gains and losses on our interest rate protection agreements are subsequently included in earnings as an adjustment to interest expense in the same periods in which the related interest payments being hedged are 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. For all hedging relationships, we formally document the hedging relationship and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method of measuring ineffectiveness.

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) Significant Acquisitions and Dispositions

Acquisitions

We acquired total income producing real estate related assets of \$219.9 million, \$948.4 million and \$295.6 million in 2007, 2006 and 2005, respectively.

In December 2007, in order to further establish our property positions around strategic port locations, we purchased a portfolio of five industrial buildings, in Seattle, Virginia and Houston, as well as approximately 161 acres of undeveloped land and a 12-acre container storage facility in Houston. The total price was \$89.7 million and was financed in part through assumption of secured debt that had a fair value of \$34.3 million. Of the total purchase price, \$66.1 million was allocated to in-service real estate assets, \$20.0 million was allocated to undeveloped land and the container storage facility, \$3.3 million was allocated to lease related intangible assets, and the remaining amount was allocated to acquired working capital related assets and liabilities. This allocation of purchase price based on the fair value of assets acquired is preliminary. The results of operations for the acquired properties since the date of acquisition have been included in continuing rental operations in our consolidated financial statements.

In February 2007, we completed the acquisition of Bremner Healthcare Real Estate ("Bremner"), a national health care development and management firm. The primary reason for the acquisition was to expand our development capabilities within the health care real estate market. The initial consideration paid to the sellers totaled \$47.1 million, and the sellers may be eligible for further contingent payments over the next three years. Approximately \$39.0 million of the total purchase price was allocated to goodwill, which is attributable to the value of Bremner's overall development capabilities and its in-place workforce. The results of operations for Bremner since the date of acquisition have been included in continuing operations in our consolidated financial statements.

In February 2006, we acquired the majority of a Washington, D.C. metropolitan area portfolio of suburban office and light industrial properties (the "Mark Winkler Portfolio"). The assets acquired for a purchase price of approximately \$867.6 million are comprised of 32 in-service properties with approximately 2.9 million square feet for rental, 166 acres of undeveloped land, as well as certain related assets of the Mark Winkler Company, a real estate management company. The acquisition was financed primarily through assumed mortgage loans and new borrowings.

The assets acquired and liabilities assumed were recorded at their estimated fair value at the date of acquisition, as summarized below (in thousands):

Operating rental properties	\$ 602,011
Land held for development	154,300
Total real estate investments	<u>756,311</u>
Other assets	10,478
Lease related intangible assets	86,047
Goodwill	14,722
Total assets acquired	<u>867,558</u>
Debt assumed	(148,527)
Other liabilities assumed	<u>(5,829)</u>
Purchase price, net of assumed liabilities	<u>\$ 713,202</u>

In December 2006, we contributed 23 of these in-service properties acquired from the Mark Winkler Portfolio with a basis of \$381.6 million representing real estate investments and acquired lease related intangible assets to two new unconsolidated subsidiaries. Of the remaining nine in-service properties, eight were contributed to these two unconsolidated subsidiaries in 2007 and one remains in continuing operations as of December 31, 2007. The eight properties contributed in 2007 had a basis of \$298.4 million representing real estate investments and acquired lease related intangible assets, and debt secured by these properties of \$146.4 million was also assumed by the unconsolidated subsidiaries.

In the third quarter of 2006, we finalized the purchase of a portfolio of industrial real estate properties in Savannah, Georgia. We completed a majority of the purchase in January 2006. The assets acquired for a purchase price of approximately \$196.2 million are comprised of 18 buildings with approximately 5.1 million square feet for rental as well as over 60 acres of undeveloped land. The acquisition was financed in part through assumed mortgage loans. The results of operations for the acquired properties since the date of acquisition have been included in continuing rental operations in our consolidated financial statements.

The primary acquisition in 2005 was that of a suburban office portfolio in our Chicago market for a purchase price of approximately \$257.6 million. The results of operations for the six properties in this portfolio have been included in continuing rental operations in our consolidated financial statements since the date of acquisition.

Dispositions

In March 2007, as part of our capital recycling program, we sold a portfolio of eight suburban office properties totaling 894,000 square feet in the Cleveland market. The sales price totaled \$140.4

million, of which we received net proceeds of \$139.3 million. We also sold a portfolio of twelve flex and light industrial properties in July 2007, totaling 865,000 square feet in the St. Louis market, for a sales price of \$65.0 million, of which we received net proceeds of \$64.2 million.

On September 29, 2005, we completed the sale of a portfolio of 212 real estate properties, consisting of approximately 14.1 million square feet of primarily light distribution and service center properties and approximately 50 acres of undeveloped land (the "Industrial Portfolio Sale"). The sales price totaled \$983.0 million, of which we received net proceeds of \$955.0 million after the settlement of certain liabilities and transaction costs. Portions of the proceeds were used to pay down \$423.0 million outstanding on our unsecured line of credit and the entire outstanding balance on our \$400.0 million term loan. The 2005 operations and gain associated with the properties in the Industrial Portfolio Sale have been reclassified to discontinued operations. As a result of the taxable income generated by the sale, a one-time special cash dividend of \$1.05 per share was paid to our common shareholders in the fourth quarter of 2005.

(4) Related Party Transactions

We provide property management, leasing, construction and other tenant related services to unconsolidated companies in which we have equity interests. For the years ended December 31, 2007, 2006 and 2005, respectively, we received from these unconsolidated companies management fees of \$7.1 million, \$4.4 million and \$4.8 million, leasing fees of \$4.2 million, \$2.9 million and \$4.3 million and construction and development fees of \$13.1 million, \$19.1 million and \$2.0 million. We recorded these fees based on contractual terms that approximate market rates for these types of services, and we have eliminated our ownership percentages of these fees in the consolidated financial statements.

(5) Investments in Unconsolidated Companies

We have equity interests generally ranging from 10% to 50% in unconsolidated joint ventures that develop, own and operate rental properties and hold land for development.

unconsolidated companies as of December 31, 2007 and 2006, and for the years ended December 31, 2007, 2006 and 2005, are as follows (in thousands):

Combined summarized financial information for the	2007	2006	2005
Rental revenue	\$ 215,855	\$ 157,186	\$163,447
Net income	\$ 41,725	\$ 65,985	\$ 57,561
Land, buildings and tenant improvements, net	\$1,771,342	\$1,403,009	
Construction in progress	105,796	107,961	
Land held for development	114,253	91,280	
Other assets	194,616	148,580	
	<u>\$2,186,007</u>	<u>\$1,750,830</u>	
Indebtedness	\$989,120	\$ 417,970	
Other liabilities	224,468	170,168	
	<u>1,213,588</u>	<u>588,138</u>	
Owners' equity	972,419	1,162,692	
	<u>\$2,186,007</u>	<u>\$1,750,830</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, 2007, are as follows (in thousands):

Year	Future Repayments
2008	\$ 2,190
2009	38,869
2010	146,885
2011	9,938
2012	44,778
Thereafter	139,361
	<u>\$ 382,021</u>

(6) Discontinued Operations and Assets Held for Sale

We classified the operations of 302 buildings as discontinued operations as of December 31, 2007. These 302 buildings consist of 253 industrial, 48 office and one retail properties. Of these properties, 32 were sold during 2007, 21 properties were sold

during 2006, 234 properties were sold during 2005 and 15 operating properties are classified as held-for-sale at December 31, 2007.

The following table illustrates operations of the buildings reflected in discontinued operations for the years ended December 31 (in thousands):

	2007	2006	2005
Revenues	\$ 41,117	\$ 77,975	\$ 166,235
Expenses:			
Operating	17,187	28,613	57,335
Interest	10,666	16,022	37,223
Depreciation and Amortization	6,068	21,529	51,089
General and Administrative	47	119	257
Operating Income	7,149	11,692	20,331
Minority interest expense	(443)	(1,041)	(1,777)
Income from discontinued operations, before gain on sales	6,706	10,651	18,554
Gain on sale of property, net of impairment adjustments	121,072	46,254	223,858
Minority interest expense – gain on sales	(7,507)	(4,121)	(19,565)
Gain on sale of property, net of impairment adjustments and minority interest	113,565	42,133	204,293
Income from discontinued operations	\$ 120,271	\$ 52,784	\$ 222,847

At December 31, 2007, we classified 15 properties as held-for-sale and included in discontinued operations. Additionally, we have classified nine in-service properties as held-for-sale, but have included the results of operations of these properties in continuing operations, either based on our present intention to sell the majority of our ownership interest in the properties to entities in which we will retain

a minority equity ownership interest or because the results of operations for the properties are immaterial. The following table illustrates aggregate balance sheet information of the aforementioned 15 properties included in discontinued operations, as well as the nine held-for-sale properties whose results are included in continuing operations at December 31, 2007 (in thousands):

	Properties Included in Discontinued Operations	Properties Included in Continuing Operations	Total Held-For-Sale Properties
Balance Sheet:			
Real estate investments, net	\$ 132,194	\$ 122,556	\$ 254,750
Other assets	10,152	8,689	18,841
Total assets held-for-sale	\$ 142,346	\$ 131,245	\$ 273,591
Accrued expenses	\$ 3,586	\$ 333	\$ 3,919
Other liabilities	1,011	4,024	5,035
Total liabilities held-for-sale	\$ 4,597	\$ 4,357	\$ 8,954

We allocate interest expense 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 any debt on secured properties included in discontinued operations and an allocable share

of our consolidated unsecured interest expense for unencumbered properties. The allocation of unsecured interest expense to discontinued operations was based upon the gross book value of the discontinued operations unencumbered population as it related to our entire unencumbered population.

We recorded impairment adjustments on depreciable properties of \$266,000 and \$3.7 million in 2006 and 2005, respectively. No impairment adjustments were recorded on depreciable properties in 2007.

(7) Indebtedness

Indebtedness at December 31, 2007 and 2006 consists of the following (in thousands):

	2007	2006
Fixed rate secured debt, weighted average interest rate of 6.11% at December 31, 2007, and 6.21% at December 31, 2006, maturity dates ranging from 2008 to 2026	\$ 515,423	\$ 652,886
Variable rate secured debt, weighted average interest rate of 3.35% at December 31, 2007, and 3.79% at December 31, 2006, maturity dates ranging from 2014 to 2025	8,970	9,615
Fixed rate unsecured debt, weighted average interest rate of 5.73% at December 31, 2007, and 5.67% at December 31, 2006, maturity dates ranging from 2008 to 2028	3,246,000	3,125,157
Unsecured lines of credit, weighted average interest rate of 5.52% at December 31, 2007, and 5.82% at December 31, 2006 maturity dates ranging from 2010 to 2011	546,067	317,000
Variable rate unsecured debt, market rate of 6.2% at December 31, 2006	-	4,496
	<u>\$ 4,316,460</u>	<u>\$ 4,109,154</u>

The fair value of our indebtedness as of December 31, 2007, was \$4.2 billion. This fair value amount was calculated using current market rates and spreads available to us on debt instruments with similar terms and maturities.

As of December 31, 2007, the \$524.4 million of secured debt was collateralized by rental properties with a carrying value of \$723.0 million and by letters of credit in the amount of \$9.1 million.

We had an unsecured line of credit available at December 31, 2007. During 2007, the borrowing capacity on this line of credit was increased from \$1.0 billion to \$1.3 billion. Additionally, in July 2007, one of our consolidated majority owned subsidiaries entered into a lending agreement that included an additional unsecured line of credit. Our unsecured lines of credit as of December 31, 2007 are described as follows (in thousands):

Description	Borrowing Capacity	Maturity Date	Outstanding at December 31, 2007
Unsecured Line of Credit	\$ 1,300,000	January 2010	\$ 543,000
Unsecured Line of Credit – Consolidated Subsidiary	\$ 30,000	July 2011	\$ 3,067

We use our line of credit to fund development activities, acquire additional rental properties and provide working capital. This line of credit 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. The interest rate on the amounts outstanding on the unsecured line of credit as of December 31, 2007 was LIBOR plus .525%, which for borrowings outstanding at December 31, 2007 ranged from 5.355% to 5.775%. Our line of credit also contains various financial covenants that require us to meet financial ratios and defined levels of performance, including those related

to variable rate indebtedness, consolidated net worth and debt-to-market capitalization. As of December 31, 2007, we were in compliance with all covenants under our line of credit.

The consolidated subsidiary's unsecured line of credit allows for borrowings up to \$30.0 million at a rate of LIBOR plus .85% (equal to 5.73% for outstanding borrowings as of December 31, 2007). The unsecured line of credit is used to fund development activities within the consolidated subsidiary. The consolidated subsidiary's unsecured line of credit matures in July 2011 with a 12-month extension option.

We took the following actions during the year ended December 31, 2007, relevant to our indebtedness:

- In August 2007, we repaid \$100.0 million of 7.375% senior unsecured notes on the scheduled maturity date.
- In September 2007, we issued \$300.0 million of 6.50% senior unsecured notes due in January 2018. This issuance was hedged with a forward starting interest rate swap that was settled and reduced the effective interest rate to 6.16%. The net proceeds from that issuance were used to partially pay down the outstanding balance on our unsecured line of credit.
- In November 2007, we repaid \$100.0 million of 3.5% senior unsecured notes on the scheduled maturity date.

In November 2006, we issued \$575.0 million of 3.75% Exchangeable Senior Notes ("Exchangeable Notes"), which will pay interest semiannually at a rate of 3.75% per annum and mature in December 2011.

The Exchangeable Notes can be exchanged for shares of our common stock upon the occurrence of certain events as well as at any time beginning on August 1, 2011 and ending on the second business day prior to the maturity date. The Exchangeable Notes had an initial exchange rate of approximately 20.4298 common shares per \$1,000 principal amount of the notes, representing an exchange price of approximately \$48.95 per share of Duke's common stock and an initial exchange premium of approximately 20.0% based on the price of \$40.79 per share of our common stock on the date of the original issuance. The initial exchange rate is subject to adjustment under certain circumstances including increases in our rate of dividends. Upon exchange the holders of the notes would receive (i) cash equal to the principal amount of the note and (ii) to the extent the conversion value exceeds the principal amount of the note, either cash or shares of common stock at our option.

Concurrent with the issuance of the Exchangeable Notes, we purchased a capped call option on our common stock in a private transaction. This capped call option allows us to buy our common shares, up to a maximum of approximately 11.7 million shares, from counter parties equal to the amounts of common stock and/or cash related to the excess conversion value we would pay to the holders of the Exchangeable Notes upon conversion. The capped call option will terminate upon the earlier of the maturity date of the related Exchangeable Notes or the first day all of the related Exchangeable Notes are no longer outstanding due to conversion or otherwise. The capped call option, which cost \$27.0 million, was recorded as a reduction of shareholders' equity and effectively increased the conversion price to 40% above the stock price on the issuance date. The fair value of the capped call option was \$1.9 million at December 31, 2007.

At December 31, 2007, the scheduled amortization and maturities of all indebtedness for the next five years and thereafter were as follows (in thousands):

Year	Amount
2008	\$ 279,928
2009	285,578
2010	728,253
2011	1,046,394
2012	209,233
Thereafter	1,767,074
	<u>\$ 4,316,460</u>

The amount of interest paid in 2007, 2006 and 2005 was \$225.8 million, \$198.1 million and \$151.3 million, respectively. The amount of interest capitalized in 2007, 2006 and 2005 was \$59.2 million, \$36.3 million and \$9.5 million, respectively.

(8) Segment Reporting

We are engaged in three reportable operating segments, the first two of which consist of the ownership and rental of office and industrial real estate investments. The operations of our office and industrial properties, along with our healthcare properties (our healthcare properties, and other property types which are not significant are not separately presented as a reportable segment), are collectively referred to as "Rental Operations". The third reportable segment consists of our build-to-suit for sale operations and providing 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 segment requires different operating strategies and management expertise.

The assets of the Service Operations business segment generally include properties under development. During the period between the completion of development, rehabilitation or repositioning of a Service Operations property and the date the property is contributed to a property fund or sold to a third party, the property and its associated rental income and rental expenses are included in the applicable Rental Operations segment because the primary activity associated with the Service Operations property during that period is rental activities. Upon contribution or sale, the resulting gain or loss is part of the income of the Service Operations business segment.

Other revenue consists mainly of equity in earnings of unconsolidated companies. Segment FFO information (FFO is defined below) 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 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") like Duke. 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"). NAREIT created FFO as a supplemental measure of REIT operating performance that excludes historical cost depreciation, among other items, from net income determined in accordance with GAAP. FFO is a non-GAAP financial measure developed by NAREIT to compare the operating performance of REITs. The most comparable GAAP measure is net income (loss). FFO should not be considered as a substitute for net income or any other measures derived in accordance with GAAP and may not be comparable to other similarly titled measures of other companies.

Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry analysts and investors have considered presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. FFO, as defined by NAREIT, represents GAAP net income (loss), excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated real estate assets, plus certain non-cash items such as real estate asset depreciation and amortization, and after similar adjustments for unconsolidated partnerships and joint ventures.

Management believes that the use of 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 believes FFO is 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 real estate assets and excluding real estate asset depreciation and amortization, FFO provides a useful comparison of the operating performance of our real estate between periods or as compared to different companies.

The following table shows (i) the revenues and FFO for each of the reportable segments and (ii) a reconciliation of net income available for common shareholders to the calculation of FFO for the years ended December 31, 2007, 2006 and 2005 (in thousands):

	2007	2006	2005
Revenues			
Rental Operations:			
Office	\$ 547,478	\$ 534,369	\$ 443,927
Industrial	219,080	194,670	148,359
Non-reportable Rental Operations segments	20,952	5,775	4,449
Service Operations	99,358	90,125	81,941
Total Segment Revenues	886,868	824,939	678,676
Other Revenue	36,359	46,738	34,876
Consolidated Revenue from continuing operations	923,227	871,677	713,552
Discontinued Operations	41,117	77,975	166,235
Consolidated Revenue	\$ 964,344	\$ 949,652	\$ 879,787
Funds From Operations			
Rental Operations:			
Office	\$ 339,587	\$ 334,839	\$ 274,940
Industrial	167,632	150,919	112,336
Non-reportable Rental Operations segments	14,382	4,372	3,335
Services Operations	52,034	53,196	44,278
Total Segment FFO	573,635	543,326	434,889
Non-Segment FFO:			
Interest expense	(168,358)	(170,484)	(106,047)
Interest and other income, net	12,135	10,450	4,637
General and administrative expense	(37,680)	(35,797)	(30,962)
Gain on land sales, net of impairment	33,422	7,791	14,201
Other non-segment income (expense)	(1,923)	159	(3,876)
Minority interest	(9,794)	(9,791)	(10,151)
Minority interest share of FFO adjustments	(10,983)	(18,858)	(3,065)
Joint venture FFO	50,085	37,774	37,964
Dividends on preferred shares	(58,292)	(56,419)	(46,479)
Adjustment for redemption of preferred shares	(3,483)	(2,633)	-
Discontinued operations, net of minority interest	5,268	32,490	50,078
Consolidated basic FFO	384,032	338,008	341,189
Depreciation and amortization on continuing operations	(271,623)	(232,739)	(203,081)
Depreciation and amortization on discontinued operations	(6,068)	(21,529)	(51,089)
Company's share of joint venture adjustments	(26,948)	(18,394)	(19,510)
Earnings from depreciated property sales on discontinued operations	121,072	42,089	227,513
Earnings from depreciated property sales - share of joint venture	6,244	18,802	11,096
Minority interest share of FFO adjustments	10,983	18,858	3,065
Net income available for common shareholders	\$ 217,692	\$ 145,095	\$ 309,183

The assets for each of the reportable segments as of December 31, 2007 and 2006 are as follows (in thousands):

	December 31, 2007	December 31, 2006
Assets		
Rental Operations:		
Office	\$ 3,705,928	\$ 4,061,806
Industrial	2,313,507	1,942,992
Non-reportable Rental Operations segments	312,246	132,449
Service Operations	476,033	301,886
Total Segment Assets	6,807,714	6,439,133
Non-Segment Assets	854,267	799,462
Consolidated Assets	\$ 7,661,981	\$ 7,238,595

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, 2007, 2006 and 2005 (in thousands):

	2007	2006	2005
Recurring Capital Expenditures			
Office	\$ 68,427	\$ 66,449	\$ 66,890
Industrial	16,454	16,210	42,083
Non-reportable Rental Operations segments	1,055	341	67
Total	\$ 85,936	\$ 83,000	\$ 109,040

(9) Leasing Activity

Future minimum rents due to us under non-cancelable operating leases at December 31, 2007 are as follows (in thousands):

Year	Amount
2008	\$ 645,005
2009	634,921
2010	573,033
2011	482,761
2012	409,167
Thereafter	1,364,161
	<u>\$ 4,109,048</u>

In addition to minimum rents, certain leases require reimbursements of specified operating expenses that amounted to \$177.2 million, \$161.7 million and \$151.4 million for the years ended December 31, 2007, 2006 and 2005, respectively.

(10) 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 \$3.7 million, \$3.9 million and \$3.3 million for the years ended December 31, 2007, 2006 and 2005, 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 \$9.3 million, \$9.4 million and \$8.1 million for 2007, 2006 and 2005, respectively. These expense amounts include estimates based upon the historical experience of claims incurred but not reported as of year-end.

(11) 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. In October 2007, we redeemed all of the outstanding shares of our 7.99% Series B Cumulative Redeemable Preferred Stock at a liquidation amount of \$132.3 million. Offering costs of \$3.5 million were charged against net income available to common shareholders in conjunction with the redemption of these shares.

The following series of preferred shares were outstanding as of December 31, 2007 (in thousands, except percentage data):

Description	Shares Outstanding	Dividend Rate	Redemption Date	Liquidation Preference
Series J Preferred	400	6.625%	August 29, 2008	\$100,000
Series K Preferred	600	6.500%	February 13, 2009	\$150,000
Series L Preferred	800	6.600%	November 30, 2009	\$200,000
Series M Preferred	736	6.950%	January 31, 2011	\$184,000
Series N Preferred	440	7.250%	June 30, 2011	\$110,000

All series of preferred shares require cumulative distributions and have no stated maturity date (although we may redeem all such preferred shares on or following their optional redemption dates at our option, in whole or in part).

In October 2007, we issued 7.0 million shares of our common stock for net proceeds of \$232.7 million.

Pursuant to the \$750.0 million share repurchase plan that was approved by our board of directors, we paid approximately \$91.9 million for the redemption of 2,266,684 of our common shares at an average price of \$40.55 per share during the year ended December 31, 2006. From time to time, management may repurchase additional common shares pursuant to our share repurchase plan.

(12) Stock Based Compensation

We are authorized to issue up to 9,949,314 shares of our common stock under our stock based employee and non-employee compensation plans.

		2007		
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life	Aggregate Intrinsic Value (1) (in Millions)
Outstanding, beginning of year	3,848,925	\$27.85		
Granted	2,457,608	\$32.23		
Exercised	(371,628)	\$23.02		
Forfeited	(83,949)	\$38.50		
Outstanding, end of year	<u>5,850,956</u>	\$29.84	7.3	\$6.6
Options exercisable, end of year	<u>2,166,435</u>	\$25.90	4.5	\$4.8

(1) The aggregate intrinsic value represents the total pre-tax intrinsic value, based on the closing stock price of \$26.08 at December 31, 2007, which would have been received by the option holders had all option holders exercised their options as of that date. This amount changes continuously based on the market prices of the stock.

Options granted in the years ended December 31, 2007, 2006 and 2005, respectively, had a weighted average fair value per option of \$2.89, \$3.60 and \$3.04. As of December 31, 2007, there was \$6.7 million of total unrecognized compensation expense related to stock options granted under the plans, which is expected to be recognized over a weighted average remaining period of 3.91 years. The total intrinsic value of options exercised during

Cash flows resulting from tax deductions in excess of recognized compensation cost from the exercise of stock options (excess tax benefits) were not significant in any period presented.

Fixed Stock Option Plans

We had options outstanding under six fixed stock option plans as of December 31, 2007. Additional grants may be made under one of those plans. Stock option awards granted under our stock based employee and non-employee compensation plans generally vest over five years at 20% per year and have contractual lives of ten years. The exercise price for stock option grants is set at the fair value of our common stock on the day of grant.

The following table summarizes transactions under our stock option plans as of December 31, 2007:

the years ended December 31, 2007, 2006 and 2005 respectively, was \$5.6 million, \$11.3 million and \$3.4 million. Compensation expense recognized for fixed stock option plans was \$2.3 million, \$1.7 million and \$1.1 million for the years ended December 31, 2007, 2006 and 2005, respectively. The fair value of options vested during the years ended December 31, 2007, 2006 and 2005 was \$1.6 million, \$1.6 million and \$1.2 million, respectively.

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

	2007	2006	2005
Dividend yield	5.75% - 6.50%	6.25%	6.25%
Volatility	18.0%	20.0%	20.0%
Risk-free interest rate	3.63% - 4.78%	4.5%	3.8%
Expected life	5 years	6 years	6 years

The risk free interest rate assumption is based upon observed interest rates appropriate for the term of our employee stock options. The dividend yield assumption is based on the history of and our present expectation of future dividend payouts. Our computation of expected volatility for the valuation of stock options granted in the years ended December 31, 2007, 2006 and 2005 is based on historic, and our present expectation of future volatility over a period of time equal to the expected term. The expected life of employee stock options represents the weighted average period the stock options are expected to remain outstanding.

Performance Share Plan

Performance shares were 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 performance shares have a contractual life of five years. In April 2006, the 2000 Performance Share Plan was amended to provide that awards would be settled in shares of common stock rather than cash. The fair value of existing awards was fixed at the date of the amendment and the fair value of subsequent awards will be fixed at the fair value of our common stock at the date of grant.

The following table summarizes transactions for our performance shares for the year ended December 31, 2007:

2000 Performance Share Plan	Vested	Unvested	Total
Performance Share Plan units at			
December 31, 2006	103,255	69,768	173,023
Granted	-	-	-
Vested	29,791	(29,791)	-
Forfeited	-	-	-
Dividend reinvestments	9,264	-	9,264
Disbursements	(4,111)	-	(4,111)
Total Performance Share Plan units			
outstanding at December 31, 2007	138,199	39,977	178,176

Compensation expense recognized for Performance Share Plan units was \$1.3 million, \$1.2 million and \$1.3 million for 2007, 2006 and 2005, respectively. The total vest date fair value of shares vesting during the year ended December 31, 2007 was \$1.1 million.

Shareholder Value Plan Awards

Our 2005 Shareholder Value Plan ("2005 SVP Plan"), a sub-plan of our 2005 Long-Term Incentive Plan, was

approved by our shareholders in April 2005. Upon vesting, payout of the 2005 Shareholder Value Plan awards will be made in shares of our common stock. Under the 2005 SVP Plan, shareholder value awards fully vest three years after the date of grant. The number of common shares to be issued may range from 0%-300% of the target shares awarded and will be based upon our total shareholder return for such three-year period as compared to the S&P 500 Index and the NAREIT Real Estate 50 Index. Each index is weighted at 50%.

Awards made under the 2005 SVP Plan are measured at fair value, which is determined using a Monte Carlo simulation model that was developed to accommodate the unique features of the 2005 SVP Plan. Compensation cost recognized under the 2005 SVP Plan was \$1.5 million, \$879,000 and \$438,000 for

the years ended December 31, 2007, 2006 and 2005, respectively.

The following table summarizes transactions for our awards under the 2005 SVP Plan for 2007:

	Number of SVP Units	Weighted Average Grant Date Fair Value
2005 Shareholder Value Plan Awards		
SVP awards at December 31, 2006	159,634	\$32.63
Granted	83,580	\$46.49
Vested	(67,845)	\$30.64
Forfeited	(11,189)	\$37.19
SVP awards at December 31, 2007	<u>164,180</u>	\$40.20

As of December 31, 2007, there was \$2.2 million of total unrecognized compensation expense related to nonvested SVP Plan awards granted under the 2005 SVP Plan, which will be recognized over a weighted average period of 1.73 years. All 2005 SVP Plan awards have a contractual life of three years.

Restricted Stock Units

Under our 2005 Long-Term Incentive Plan and our 2005 Non-Employee Directors Compensation Plan approved by our shareholders in April 2005, restricted stock units ("RSUs") may be granted to non-employee directors, executive officers and selected

management employees. An RSU is economically equivalent to one share of our common stock. RSUs granted prior to January 1, 2006 vest 20% per year over five years, have contractual lives of five years and are payable in shares of our common stock. RSUs granted to existing non-employee directors subsequent to January 1, 2006 vest 100% over one year, and have contractual lives of one year. We recognize the value of the granted RSUs over this vesting period as expense.

The following table summarizes transactions for our RSUs, excluding dividend equivalents, for 2007:

	Number of RSUs	Weighted Average Grant Date Fair Value
Restricted Stock Units		
RSUs at December 31, 2006	235,693	\$33.07
Granted	96,113	\$46.67
Vested	(62,353)	\$33.14
Forfeited	(8,355)	\$38.99
RSUs at December 31, 2007	<u>261,098</u>	\$37.87

Compensation cost recognized for RSUs totaled \$3.0 million, \$2.1 million and \$478,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

As of December 31, 2007, there was \$5.9 million of total unrecognized compensation expense related to nonvested RSUs granted under the Plan, which is expected to be recognized over a weighted average period of 3.9 years.

(13) Financial Instruments

We are exposed to capital market risk, such as changes in interest rates. In order to reduce 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.

In November 2007, we entered into \$300.0 million of cash flow hedges through forward-starting interest rate swaps to hedge interest rates on \$300.0 million of anticipated debt offerings in 2008. The swaps qualify for hedge accounting, with any changes in fair value recorded in Other Comprehensive Income ("OCI"). At December 31, 2007, the fair value of these swaps was approximately \$6.2 million in a liability position as the effective rate on the swaps was higher than current interest rates at December 31, 2007.

In July 2007, we entered into a \$21.0 million cash flow hedge through an interest rate swap to fix the rate on \$21.0 million of floating rate term debt, issued by one of our consolidated majority owned subsidiaries, which matures in July 2011. The swap qualifies for hedge accounting, with any changes in fair value recorded in OCI. At December 31, 2007, the fair value of this swap was approximately \$1.1 million in a liability position.

In August 2005, we entered into \$300.0 million of cash flow hedges through forward-starting interest rate swaps to hedge interest rates on \$300.0 million of anticipated debt offerings in 2007. The swaps qualified for hedge accounting, with any changes in fair value recorded in OCI. In conjunction with the September 2007 issuance of \$300.0 million of senior unsecured notes, we terminated these cash flow hedges as designated. The settlement amount received of \$10.7 million will be recognized to earnings through a reduction of interest expense over the term of the hedged cash flows. The ineffective portion of the hedge was insignificant.

In March 2005, we entered into \$300.0 million of cash flow hedges through forward-starting interest rate swaps to hedge interest rates on \$300.0 million of anticipated debt offerings in 2006. The swaps qualified for hedge accounting, with any changes in fair value recorded in OCI. In March 2006, we issued \$150.0 million of 5.50% senior unsecured notes due 2016 and terminated a corresponding amount of the cash flow hedges designated for this transaction. The settlement amount paid of approximately \$800,000 will be recognized to earnings through interest expense ratably over the life of the senior unsecured notes and

the ineffective portion of the hedge was insignificant. In August 2006, we issued \$450.0 million of 5.95% senior unsecured notes due 2017 and \$250.0 million of 5.63% senior unsecured notes due 2011 and terminated the remaining \$150.0 million of cash flow hedges. The settlement amount received of approximately \$1.6 million will be recognized to earnings through a reduction of interest expense ratably over the lives of the senior unsecured notes. The ineffective portion of the hedge was insignificant.

The effectiveness of our hedges will be evaluated throughout their lives using the hypothetical derivative method under which the change in fair value of the actual swap designated as the hedging instrument is compared to the change in fair value of a hypothetical swap.

(14) Recent Accounting Pronouncements

We adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* ("FIN 48"), on January 1, 2007. The adoption of FIN 48 resulted in an additional tax exposure of approximately \$1.7 million recorded as an adjustment to the opening balance of Distributions in Excess of Net Income. As of December 31, 2007, tax returns for the calendar years 2004 through 2007 remain subject to examination by the Internal Revenue Service ("IRS") and various state and local tax jurisdictions. Our uncertain tax positions are immaterial both individually and in the aggregate primarily due to our tax status as a REIT.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosure about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We do not expect SFAS 157 to have a material effect when adopted.

In January 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 provides a "Fair Value

Option” under which a company may irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities. This Fair Value Option will be available on a contract-by-contract basis with changes in fair value recognized in earnings as those changes occur. The effective date for SFAS 159 is the beginning of each reporting entity’s first fiscal year end that begins after November 15, 2007. We will not elect the Fair Value Option for any of our financial assets or liabilities.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* (“SFAS 141R”) and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment to ARB No. 51* (“SFAS 160”). SFAS 141R and SFAS 160 require most identifiable assets, liabilities, noncontrolling interests and goodwill acquired in a business combination to be recorded at “full fair value” and require noncontrolling interests (previously referred to as minority interests) to be reported as a component of equity, which changes the accounting for transactions with noncontrolling interest holders. Both Statements are effective for periods beginning on or after December 15, 2008, and earlier adoption is prohibited. SFAS 141R will be applied to business combinations occurring after the effective date. SFAS 160 will be applied prospectively to all noncontrolling interests, including any that arose before the effective date. We are currently evaluating the impact of adopting SFAS 141R and SFAS 160 on our results of operations and financial position.

(15) Commitments and Contingencies

We have guaranteed the repayment of \$79.3 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 also have guaranteed the repayment of secured and unsecured loans of seven of our unconsolidated subsidiaries. At December 31, 2007, the outstanding balance on these loans was approximately \$219.8 million. Additionally, we guaranteed \$29.0 million of secured indebtedness related to a property sold to a third party in 2006. Management believes that the value of the real estate exceeds the loan balance and that we will not be required to satisfy these guarantees.

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 acquisitions of land and buildings totaling \$158.9 million. In most cases we may withdraw from land purchase contracts with the seller’s only recourse being earnest money deposits already made.

In October 2000, we sold or contributed industrial properties and undeveloped land with a fair value of \$487.0 million to a joint venture (Dugan Realty LLC) in which we have a 50% interest and recognized a net gain of \$35.2 million. In connection with this transaction, the joint venture partners were given an option to put up to a \$50.0 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 \$50.0 million liability.

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.

(16) Subsequent Events

Declaration of Dividends

The Company's board of directors declared the following dividends at its January 30, 2008, regularly scheduled board meeting:

Class	Quarterly Amount/Share	Record Date	Payment Date
Common	\$ 0.48	February 14, 2008	February 29, 2008
Preferred (per depositary share):			
Series J	\$0.414063	February 15, 2008	February 29, 2008
Series K	\$0.406250	February 15, 2008	February 29, 2008
Series L	\$0.412500	February 15, 2008	February 29, 2008
Series M	\$0.434375	March 17, 2008	March 31, 2008
Series N	\$0.453125	March 17, 2008	March 31, 2008

In February 2008, we issued \$300.0 million of 8.375% Series O Cumulative Redeemable Preferred Shares.

SELECTED QUARTERLY FINANCIAL INFORMATION (Unaudited)

Selected quarterly information for the years ended December 31, 2007 and 2006 is as follows (in thousands, except per share amounts):

	Quarter Ended			
	December 31	September 30	June 30	March 31
2007				
Revenues from continuing Rental Operations	\$ 219,068	\$ 202,799	\$ 196,893	\$ 205,109
Revenues from continuing Service Operations	42,316	20,273	22,039	14,730
Net income available for common shareholders	\$ 58,666	\$ 53,387	\$ 37,076	\$ 68,563
Basic income per common share	\$ 0.40	\$ 0.39	\$ 0.27	\$ 0.50
Diluted income per common share	\$ 0.40	\$ 0.39	\$ 0.27	\$ 0.49
Weighted average common shares	145,623	137,576	136,921	136,823
Weighted average common shares and potential dilutive common equivalents	154,467	147,651	148,129	149,465
Funds From Operations (1)	\$ 116,750	\$ 93,673	\$ 87,282	\$ 86,327
2006				
Revenues from continuing Rental Operations	\$ 208,424	\$ 195,614	\$ 194,650	\$ 182,864
Revenues from continuing Service Operations	47,927	22,474	9,718	10,006
Net income available for common shareholders	\$ 50,196	\$ 61,734	\$ 21,717	\$ 11,448
Basic income per common share	\$ 0.37	\$ 0.46	\$ 0.16	\$ 0.08
Diluted income per common share	\$ 0.37	\$ 0.45	\$ 0.16	\$ 0.08
Weighted average common shares	134,665	135,117	134,969	134,781
Weighted average common shares and potential dilutive common equivalents	149,020	150,947	149,364	149,265
Funds From Operations (1)	\$ 102,788	\$ 88,787	\$ 78,756	\$ 67,677

(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") like Duke. 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"). NAREIT created FFO as a supplemental measure of REIT operating performance that excludes historical cost depreciation, among other items, from net income determined in accordance with United States generally accepted accounting principles ("GAAP"). FFO is a non-GAAP financial measure developed by NAREIT to compare the operating performance of REITs. The most comparable GAAP measure is net income (loss). FFO should not be considered as a substitute for net income or any other measures derived in accordance with GAAP and may not be comparable to other similarly titled measures of other companies.

Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry analysts and investors have considered presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. FFO, as defined by NAREIT, represents GAAP net income (loss), excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated real estate assets, plus certain non-cash items such as real estate asset depreciation and amortization, and after similar adjustments for unconsolidated partnerships and joint ventures.

Management believes that the use of 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 believes FFO is 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 real estate assets and excluding real estate asset depreciation and amortization, FFO provides a useful comparison of the operating performance of our real estate between periods or as compared to different companies.

HOW TO REACH US

Corporate Headquarters

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

Transfer Agent and Registrar

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

Investor Relations

Duke Realty Corporation
Attn: Investor Relations
600 East 96th Street, Suite 100
Indianapolis, Indiana 46240
317.808.6000 or 800.875.3366
317.808.6770 (fax)
IR@dukerealty.com
www.dukerealty.com

Media Relations

Duke Realty Corporation
Attn: Joel Reuter
600 East 96th Street, Suite 100
Indianapolis, Indiana 46240
317-808-6137 or 800.875.3366
317-808-6786 (fax)
joel.reuter@dukerealty.com

GENERAL INFORMATION

Dividend Reinvestment and Stock Purchase Plan

Duke's Dividend Reinvestment and Stock Purchase Plan provides shareholders with an opportunity to conveniently acquire the Company's common stock. Shareholders may have all or a portion of their dividends and distributions automatically reinvested, and may make optional cash payments toward the purchase of additional common shares. Information regarding the Plan may be obtained from our transfer agent, American Stock Transfer & Trust Company, at www.amstock.com or by calling 800.937.5449.

ELECTRONIC DEPOSIT OF DIVIDENDS

Registered holders of our common stock may have their quarterly dividends deposited to their checking or savings account free of charge. Call Investor Relations to sign up for this service.

MARKET PRICE AND DIVIDENDS

New York Stock Exchange: 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 such period.

2007

Quarter Ended	High	Low	Close	Dividend
December 31	\$ 35.40	\$ 24.25	\$ 26.08	\$ 0.480
September 30	37.05	29.74	33.81	0.480
June 30	44.90	35.22	35.67	0.475
March 31	48.42	40.02	43.47	0.475

2006

Quarter Ended	High	Low	Close	Dividend
December 31	\$ 44.05	\$ 36.98	\$ 40.90	\$ 0.475
September 30	38.50	34.60	37.35	0.475
June 30	37.90	32.88	35.15	0.470
March 31	38.55	33.32	37.95	0.470

On January 30, 2008, the company declared a quarterly cash dividend of \$0.48 per share, payable on February 29, 2008 to common shareholders of record on February 14, 2008.

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 the Annual Report, the words "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. This list of risks and uncertainties, however, is only a summary of some of the most important factors and is not intended to be exhaustive. Additional information regarding risk factors that may affect us is included under the caption "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which we filed with the SEC on February 29, 2008, and is updated by us from time to time in Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and other filings that we make with the SEC.

BOARD OF DIRECTORS

(From Left to Right)

Dennis D. Oklak
Chairman of the Board
and Chief Executive
Officer
Duke Realty Corporation

Charles R. Eitel
Chairman and Chief
Executive Officer
The Simmons Company

Barrington H. Branch
President
The Branch-Shelton
Company, LLC

Jack R. Shaw
Vice President
and Treasurer
The Regenstrief
Foundation

Dr. Martin C. Jischke
President Emeritus,
Purdue University



William Cavanaugh III
Chairman
World Association of Nuclear
Operators

Ngaire E. Cuneo
Partner
Red Associates, LLC

William O. McCoy
Partner
Franklin Street Partners

Geoffrey Button
Independent Real Estate
and Financing Consultant

Robert J. Woodward, Jr.
Chairman
Palmer-Donavin
Manufacturing Company

L. Ben Lytle
Independent Management and
Healthcare Industry Consultant
Chairman Emeritus
Wellpoint, Inc.

(Not Pictured)

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

COMPANY OFFICERS

Dennis D. Oklak
Chairman and Chief
Executive Officer

Robert M. Chapman
Chief Operating Officer

James D. Bremner
President, BremnerDuke
Healthcare Real Estate

Matthew A. Cohoat
Executive Vice President
and Chief Financial Officer

James B. Connor
Executive Vice President,
Midwest Region

Denise K. Dank
Senior Vice President,
Human Resources

William J. DeBoer
Executive Vice President,
Redevelopment and Logistics

Howard L. Feinsand
Executive Vice President,
General Counsel, and
Corporate Secretary

Donald J. Hunter
Executive Vice President,
National Build-to-Suit Group

H. Andrew Kelton
Executive Vice President,
East Region

Steve R. Kennedy
Executive Vice President,
Construction

Sam O'Briant
Executive Vice President,
Southeast Region

Paul R. Quinn
Senior Vice President,
Strategic Execution Officer
and Chief Information Officer

Kevin T. Rogus
Executive Vice President,
West Region

Chris L. Seger
Executive Vice President,
National Group

Jeffrey D. Turner
Executive Vice President,
South Region



CORPORATE HEADQUARTERS
600 East 96th Street, Suite 100
Indianapolis, Indiana 46240
317.808.6000
www.dukerealty.com