



2013 ANNUAL REPORT
RESPONSIBLE | RESPECTFUL | RESOURCEFUL



FINANCIAL HIGHLIGHTS

<i>(in thousands, except per share amounts)</i>	2013	2012	2011
Consolidated revenues	\$ 1,127,856	\$ 1,117,724	\$ 1,458,845
Net income (loss) attributable to common shareholders	153,044	(126,145)	31,416
Funds from operations (FFO) – diluted*	351,780	269,985	282,119
Core FFO – diluted*	363,827	282,468	303,247
Adjusted FFO (AFFO) – diluted*	296,447	227,613	205,605

PER SHARE:

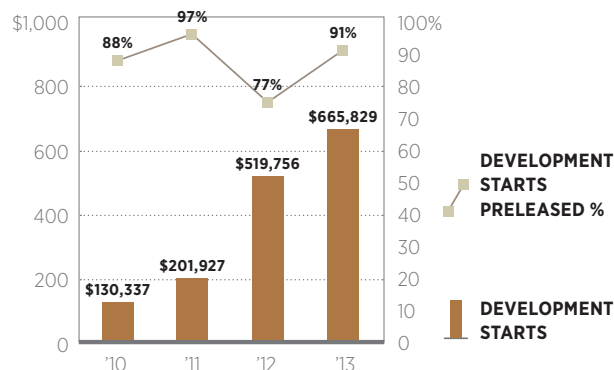
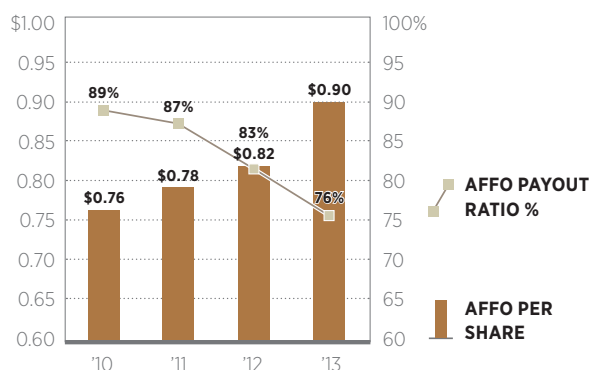
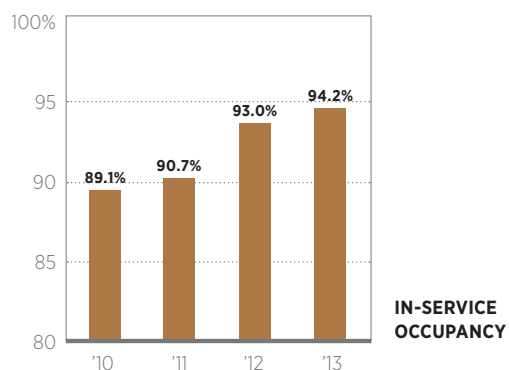
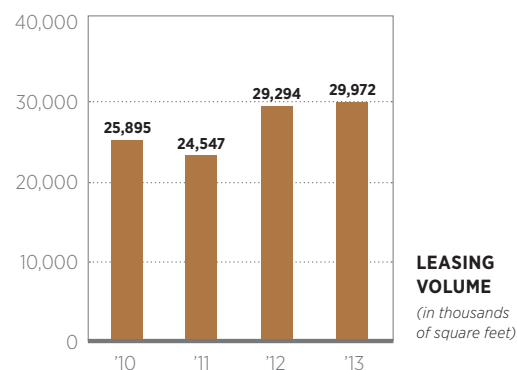
Net income (loss) – diluted	\$ 0.47	\$ (0.48)	\$ 0.11
FFO – diluted*	1.07	0.98	1.07
Core FFO – diluted*	1.10	1.02	1.15
AFFO – diluted*	0.90	0.82	0.78
Dividends paid	0.68	0.68	0.68

AT YEAR END:

Common stock price	\$ 15.04	\$ 13.87	\$ 12.05
Total assets before accumulated depreciation	9,135,371	8,856,786	8,132,032

* see page 74

OPERATING AND FINANCIAL PERFORMANCE METRICS



TO OUR SHAREHOLDERS

1993 – 2013

CELEBRATING 20 YEARS
AS A PUBLICLY TRADED COMPANY



In late 2009, Duke Realty Corporation laid out a three-pronged strategy to reposition the company's operations, asset mix and capital position. Our time frame to complete this strategy was the end of 2013, and I am pleased to report that we completed all parts of our strategy in accordance with our original plan by the end of the year. The execution of this strategy positions our company for future growth in the years ahead.

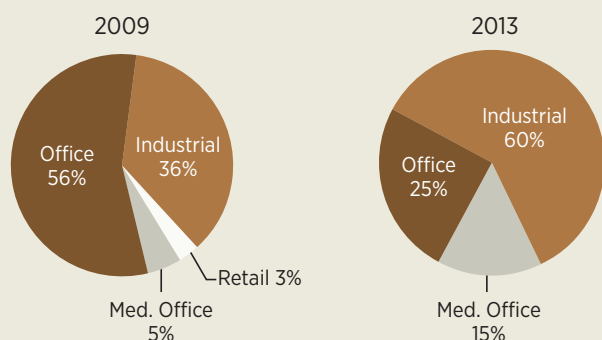
In 2009 our asset mix was 56 percent suburban office, 36 percent industrial and we were just beginning to build our medical office business. Our Asset Strategy goal was to reposition the portfolio to 60 percent bulk industrial, 25 percent suburban office and 15 percent medical office. We also committed to changing our portfolio geographically at the same time we changed the asset mix. In 2009 our properties were 55 percent in the Midwest and 22 percent in the Southeast, our two historic markets. At the end of

2013, the geographic allocation of our properties was 42 percent in the Midwest and 20 percent in the Southeast. In addition we added bulk industrial product in Northern and Southern California, South Florida, New Jersey and Pennsylvania. Those markets now comprise about 15 percent of our industrial portfolio. The completion of this Asset Strategy means our company owns the second largest U.S. industrial portfolio of all publicly traded commercial real estate companies. Our portfolio, located in major distribution markets around the country, has the largest average building size and the lowest average age compared to other public industrial companies. We have focused on owning large, modern bulk industrial facilities occupied by national tenants with high-credit quality. Today more than 40 percent of our industrial portfolio is in buildings over 500,000 square feet (over 10 acres under roof) and only eight percent are in buildings under 100,000 square feet.

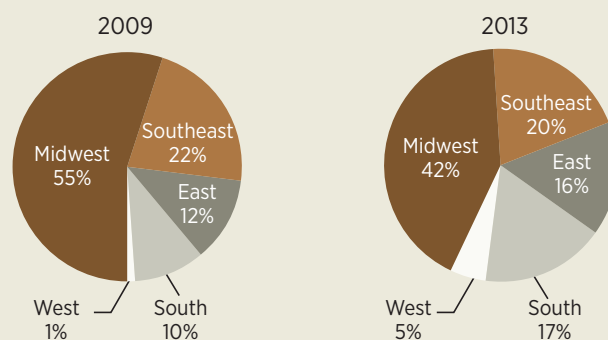
Jim Connor, Chief Operating Officer; Denny Oklak, Chairman and Chief Executive Officer; and Mark Denien, Chief Financial Officer

SUCCESSFUL PORTFOLIO REPOSITIONING

PORTFOLIO BY PRODUCT TYPE



PORTFOLIO BY REGION



Our medical office portfolio is also best-in-class among publicly traded real estate companies. We have built this portfolio primarily through new development projects with major hospital systems around the country. More than 97 percent of this portfolio is comprised of medical office buildings on campus or aligned with top-rated health systems. More than 55 percent of the rental revenue from these properties comes from healthcare systems that have an "A" or higher credit rating. We will continue to grow this portfolio with an industry-leading development team.

Our suburban office portfolio is now primarily located in high job-growth markets including Raleigh, South Florida, Nashville and Washington D.C. We will continue to dispose of some of our older office buildings located primarily in our Midwest markets. We also will continue to develop on our remaining strategic office land positions.

In 2009, when the real estate market bottomed out in the depths of the great recession, our overall portfolio occupancy dipped to just above 85 percent. Our Operations Strategy focused on taking measures to improve this occupancy, including leveraging our complete customer satisfaction program to assure that our tenants renew with us at the expiration of their leases and also maintaining our properties to be the best in the market. I am pleased to report that this strategy resulted in an increase in our in-service occupancy to more than 94 percent at the end of 2013 while increasing our total portfolio size by approximately 17 million square feet.

The third strategy area, our Capital Strategy, was focused on improving our leverage metrics including our fixed-charge coverage ratio and our ratio of debt plus preferred stock to EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization). We also reached our Capital Strategy goals and, in early 2014, received a credit rating upgrade from Standard & Poor's in recognition of our efforts.

Most important of all, while accomplishing the repositioning of our asset mix and improving our leverage metrics, we also were able to grow our AFFO per share by a compound annual growth rate of more than six percent over this four-year period. In 2013 our AFFO per share was \$0.90, up from \$0.76 in 2010. Our Core AFFO per share significantly covers our annual dividend per share of \$0.68 resulting in a conservative 76 percent dividend payout ratio.

The execution of this strategic plan required yeoman's work by our experienced team of real estate professionals. This execution included more than \$3 billion of property acquisitions, more than \$3 billion of property dispositions and more than \$1.5 billion of new development starts. I want to personally thank all of our associates for their dedication and commitment to completing this strategy. I'd particularly like to thank our senior leadership team for successfully keeping us on track to achieve our goals over the past four years.

2013 was also a stellar operating year. During 2013 we executed leases totaling approximately 30 million square feet. This leasing activity allowed us to increase our overall occupancy by more than 1.6 percent to 94 percent, a near record occupancy for us. In addition, we started \$666 million of new development projects. These projects consisted of modern, bulk industrial build-to-suit projects, medical office projects with major hospital customers and three significantly pre-leased suburban office projects on land that we owned. These projects totaled over 6.9 million square feet and are more than 90 percent leased as of year-end. We also completed some key dispositions including the sale of our Pembroke Gardens Lifestyle Center in South Florida and our interest in CapTrust Tower in Raleigh, both for record pricing. We also sold over \$189 million of Midwest suburban office assets and \$286 million of non-strategic medical office buildings. We expanded our industrial portfolio in key markets including Southern California, Pennsylvania, New Jersey and Miami with over \$525 million of properties acquired.

2013 also marked the 20th Anniversary of the roll up of Duke Realty into a publicly traded corporation. In 1993, at the time of our initial public offering, we owned 12 million square feet of properties concentrated in Midwestern markets. At the end of 2013, we owned over 152 million square feet in major markets from the east coast to the west coast of the United States. We have grown our company's enterprise value during that period from \$600 million to approximately \$10 billion. In 1995 we obtained investment-grade credit ratings from both Moody's and Standard and Poor's, and we are proud to say that we have maintained investment-grade ratings since that time.

As we look forward to 2014, our company is well positioned to continue to grow. We have excellent teams in place in all the major markets in which we operate which means we outperform the markets. We have strategic industrial land positions to compete on build-to-suit development projects with major customers as well as to selectively develop speculative projects if warranted in a particular market. We have excellent relationships with major companies on both the industrial and medical office fronts which allow us to win significant new development and major leasing opportunities. We are excited about our future as the U.S. economy continues to improve.

I thank our Board of Directors for their input into and support of our strategic efforts during 2013 and over the past four years. I also once again thank you for your support as shareholders of Duke Realty. We appreciate your confidence in our company.



Dennis D. Oklak
Chairman and Chief Executive Officer

1400 Pescadero Ave - Tracy, California





1130 Commerce Boulevard – Logan Township, New Jersey; Crate & Barrel – Cranbury, New Jersey;
Wesley Chapel Wellness MOB – Pasco County, Florida; 3700 Cover Street – Long Beach, California

ASSET STRATEGY

One of our most significant accomplishments in 2013 was the successful completion of our four-year asset repositioning plan. We are pleased to report that we have met the goals we set in 2009 for shifting our investment allocations by product type, and now have 60 percent of our net operating income generated by our industrial portfolio, 25 percent by our suburban office properties and 15 percent by our medical office holdings.

Concurrent with our repositioning, we also have significantly improved the quality of our assets and expanded our geographic presence. Today the average age of our industrial portfolio is 11.4 years, with 69 percent comprised of modern, bulk industrial assets with 250,000 square feet or more. Our medical office portfolio has an average age of only 6.2 years, with 97.0 percent of our properties either on campus or aligned with a top-rated health system. We've also been able to maintain best-in-class office properties in select markets across the country, even as we've reduced our investment in this segment of our business by 31 percent since 2009.

Our asset strategy also has resulted in a coast-to-coast presence. As we've focused on growing our industrial portfolio in key trucking, rail and shipping markets, we've expanded our reach into 22 major U.S. metropolitan areas, including properties on the West Coast and along the strategic I-81 and I-95 distribution corridors in the northeast. Our attention to location has resulted in a desired reduced investment in the Midwest and broader geographic scope.

Our accretive capital recycling program, whereby we redeploy proceeds from dispositions into acquisitions of strategic properties and the development of build-to-suit or substantially preleased properties, was instrumental in helping us reach our year-end asset composition goals. In 2013, dispositions of non-core assets totaled \$877 million, with sales of suburban office assets and medical office buildings totaling \$374 million and \$286 million, respectively. Among our most significant dispositions was the sale of a retail center in South Florida for \$188 million which enabled us to significantly decrease our investment in this product sector.

Our \$546 million in acquisitions this year were primarily premier bulk industrial properties in targeted markets. Our largest acquisition was a 4.8 million-square-foot portfolio composed of eight, 100 percent leased, Class A institutional-quality industrial buildings in six states. This acquisition, along with other strategic investments throughout the year, added 8.0 million square feet to our industrial portfolio, and firmly established Duke Realty as a leading owner of modern bulk industrial assets in key logistics hubs.

Development is also an important factor in our asset strategy. In 2013, we started \$666 million in new developments, including 5.8 million square feet in industrial facilities, 652,000 square feet in substantially preleased office buildings and 508,000 square feet in new, highly preleased medical office buildings. At year-end, our development pipeline was 89 percent preleased in the aggregate. As these new assets are placed in service, they improve the age and quality of our portfolio and are immediately accretive to earnings and cash flow as a result of their attractive yields and occupancy.

Our sale of \$52 million of land during 2013, resulted in an approximate 20 percent gain to our book basis. Coupled with development starts, the aggregate amount of land monetized in 2013 was \$114 million.

Moving forward, we will continue to grow our investment in modern, bulk industrial assets in markets where we anticipate growth, as well as maintain the quality of our suburban and medical office portfolios. We will monetize land we own through development and sales of non-strategic parcels. We also will sell less strategic buildings when pricing is advantageous. Our commitment to having the best and strongest portfolio in the industry remains unchanged so that we can ensure ongoing performance and solid returns for our shareholders.

CAPITAL STRATEGY



We are pleased to report that in 2013 we successfully met the capital goals that were part of our four-year strategic plan. Our ability to reduce leverage, increase our debt-service coverage ratios and improve liquidity while also completing our asset repositioning is a testament to our strong team and our commitment to improving our capital structure.

Important to our strategy in 2013 was the opportunistic execution of transactions to raise capital at favorable rates and extend debt maturities. In January 2013, we raised \$572 million in equity with the sale of 41.4 million shares of common stock at a price of \$14.25 per share. We also executed a new at-the-market (ATM) plan that allows us to issue up to \$300 million of common stock. We issued approximately 4.8 million new shares of common stock this year on our ATM program, at an average price of \$16.67 per share, generating net proceeds of \$78 million.

Dispositions of non-strategic properties and land also were instrumental in generating capital. In total, we raised \$929 million through the sale of non-core assets and land holdings.

Lastly, we took advantage of favorable interest rates and issued \$500 million of senior unsecured notes during the year. Our first \$250 million offering carries a ten-year maturity and was priced at a company record low 3.72 percent effective rate. Our subsequent \$250 million offering matures in seven years and was priced at a 3.91 percent effective rate. We also issued a five-year \$250 million unsecured term loan that bears interest at a variable rate of LIBOR plus 1.35%.

In alignment with our capital strategy, proceeds from these activities were used to improve the overall capital structure of the company through the redemption of higher-rate preferred stock and reduction of debt. We redeemed \$178 million of Series O cumulative preferred stock in February 2013 that carried an interest rate of 8.375 percent. We also repaid more than \$1 billion

in debt, which included paying down \$197 million on our revolving credit facility, the redemption of \$250 million in outstanding principal of 5.40% senior notes in advance of their August 2014 maturity, the repayment of an additional \$425 million of unsecured notes that matured during 2013 and the pay-down of \$169 million in secured debt. The balance of the capital generated in 2013 was used to fund the company's growth through strategic acquisitions and new development that provide a solid rate of return.

These transactions, along with strong operating performance, have resulted in the attainment of the leverage goals we set in 2009. At year-end, our debt plus preferred-to-gross assets stood at 50 percent, while our fixed-charge coverage ratio rose to 2.1 times and our debt plus preferred/EBITDA was 7.8 times.

At the end of the year, we had an outstanding balance of only \$88 million on our \$850 million line of credit, leaving us with ample liquidity. We also had a manageable debt maturity schedule, with less than 15 percent due over the next two years and no individually significant maturities until February 2015.

As we head into 2014, we are well-positioned for continued performance. Our balance sheet is strong, our debt coverage ratios are at targeted levels and our near-term debt maturities are minimal. We will closely manage the future growth of our company, with a goal of continued improvement in our leverage metrics and financing our growth using the optimal mix of capital sources to ensure ongoing solid returns for our shareholders.



Photo facing page: AllPoints at Anson Bldg 7A – Indianapolis, Indiana
 This Page: Amazon Fulfillment Center – Seattle, Washington;
 Point North Two – Houston, Texas; Kuehne + Nagel – Atlanta, Georgia



Sam Houston Crossing II – Houston, Texas; Groveport Commerce Center Bldg 437 – Columbus, Ohio; Grand Lakes I– Dallas, Texas;
500 Independence Avenue – Mechanicsburg, Pennsylvania

OPERATIONAL STRATEGY

Our operational focus in 2013 centered on improving cash flow and maximizing our return on assets. As a result of our team's diligence, we were able to improve our operational metrics compared to the previous year, with increases in leasing, occupancy and net operating income. These operational improvements resulted in a nearly 8 percent increase in FFO per share from \$1.02 for 2012 to \$1.10 for 2013, and a nearly 10 percent increase in AFFO per share from \$0.82 for 2012 to \$0.90 per share for 2013.

In 2013, our leasing team completed approximately 30 million square feet in leases, with new leases accounting for 53 percent of the volume and renewals contributing the balance. Consistent with trends in e-commerce growth and distribution center repositioning, industrial leasing was particularly strong with 81 percent of new leases and 81 percent of renewals in this product type.

We also were successful in generating new leases and retaining existing tenants in our medical office and suburban office properties. An improving economy, coupled with the quality and location of our assets, enabled us to sign 4.5 million square feet in office leases and increase occupancy in some of our under-leased medical properties. Our focus on complete customer satisfaction fueled renewals in all of our product types which led to an overall tenant retention rate of 70 percent.

Occupancy in our total in-service portfolio stood at 94.2 percent at the end of 2013, the highest level since 1998 and 120 basis points higher than our 2012 year-end occupancy. Occupancy in our in-service industrial portfolio was 95.3 percent at the end of the year, approximately 70 basis points higher than the end of 2012. Occupancy in our in-service medical office properties was 93.7 percent at year-end, an increase of approximately 230 basis points, while in-service occupancy in our suburban office portfolio increased by approximately 150 basis points to 87.8 percent.

The lease up of our assets and consistent rental rate growth across all major product types enabled us to achieve increases in same property net operating income. Increased demand, limited

inventory and the quality of our assets has supported higher rental rates on new leases and renewals. We also have been proactive in structuring leases to include scheduled rental rate escalations to ensure ongoing improvements in cash flow. As a result, our same property net operating income for the 12 months ended December 31, 2013 grew 3.7 percent compared to the 12 months ended December 31, 2012. Same property net operating income in our industrial portfolio grew 3.6 percent compared to the previous 12 months, while growing by 3.3 percent and 4.6 percent in our medical office and suburban office properties, respectively.

Strong operational performance is the cornerstone of our business. Therefore, we will continue to look for opportunities to grow cash flow by maintaining a high-quality portfolio that drives occupancy and rental rate growth while minimizing capital expenditures. We will continue to pursue primarily preleased development projects that offer solid returns and begin selective speculative projects that meet our criteria. Our practice of having a local team of professionals ready to work with customers on their real estate needs will continue, as will our commitment to improving operating efficiencies.

MEANINGFUL COMMUNITY IMPACT



At Duke Realty, we firmly believe that by sharing our time, talent and resources, we can strengthen the local communities where we live and work. That's why we proactively support the volunteer efforts of our associates and advocate for initiatives that have a meaningful impact on our world.

In 2013, our associates continued to bring their passion for being resourceful, respectful and responsible into a variety of community activities. Across the country, our associates got out of the office and into their communities, providing helping hands—and sometimes strong backs—to worthwhile causes. We found that regardless of the need, whether it was making repairs to an elderly person's home, spreading mulch in a community garden, buying and wrapping holiday gifts for children, building a Habitat for Humanity house or stocking shelves at a food pantry, our associates stepped up to the plate and pitched in.

To encourage volunteerism, we annually provide our associates with two paid days for community service, leaving how and where they spend their time discretionary based on their interests. For associates who aren't aware of available opportunities, we have an intranet site for posting and signing up for volunteer activities. Associates also can use this site to record their volunteer time, including the hours they donate outside of working hours. Matching Gifts and Dollars for Doers is another component of the site where associates can request matching funds from Duke Realty for causes they personally support.

In 2013, helping was again in the hearts of our associates with more than 54 percent using their Duke Realty community service days to make a difference. In addition, associates recorded more than 3,000 hours of their personal time addressing critical needs in our communities. Our philanthropic reach went to other countries as well. Through CareLink, our initiative that connects medical mission organizations with healthcare providers with equipment to donate, we helped improve the quality of healthcare in Haiti and Africa.

Duke Realty's generosity also includes monetary contributions. As a company, we support the United Way with our associates

pledging \$341,373 to the organization in 2013. In recognition of our ongoing support of this organization in Indianapolis, we were one of four companies in 2013 that received the prestigious Spirit United award from the United Way of Central Indiana.

Other organizations for which we actively solicit donations include the American Heart Association, Leukemia and Lymphoma Society, American Cancer Society and Breast Cancer Awareness. Special causes also prompt our associates to give generously. In 2013, our team donated more than \$20,000 to the American Red Cross Disaster Relief effort for Oklahoma tornado victims and \$30,000 to Eskenazi Health, Indianapolis' safety net hospital, for facilities on its new campus.

Diversity and inclusion is another important and ongoing initiative at Duke Realty. For more than a decade, we have taken steps to increase awareness and advocate for diversity and inclusion within our company and with key external stakeholders. We understand the value of different perspectives, varying backgrounds, and a full spectrum of insights, and recognize how diversity can enhance our business, projects and ability to better serve our clients. Our efforts have not gone unrewarded. In 2013, we received a Gold Award of Excellence by the Brandon Hall Group, an organization that annually recognizes companies for the successful development and implementation of learning and talent management programs.

Another area of emphasis is environmental stewardship. We continue to look for ways to increase efficiencies in the ongoing operation and maintenance of all of our properties and incorporate sustainable practices in our operations and new construction.

We routinely evaluate the performance of our buildings as part of our disciplined approach to property management. We look for



opportunities to lower operating costs through more efficient lighting and HVAC systems, reduced energy and water use and less waste production. We believe these efforts are not only respectful of our world's resources, but also help strengthen the relationships we have with our tenants. By keeping operating costs in check, our customers' profitability is favorably impacted through long-term cost savings.

At Duke Realty, we employ new construction sustainability practices including building envelop energy conservation designs, energy-efficient building components and state-of-the-art energy management systems. For clients seeking additional green building

practices in their facilities, we are positioned to offer a variety of sustainable solutions accompanied by cost, design and efficiency analyses based on the knowledge we've gained in delivering more than 30 LEED-certified buildings over the past five years.

At Duke Realty, we believe we have a responsibility to our customers, communities and our world. As we look to 2014 and beyond, our plans call for continuing to helping ensure positive, lasting outcomes in our communities, leveraging different perspectives and building responsibly.

Photo facing page: Operation Christmas Child – Atlanta, Georgia

This page: Habitat for Humanity – Indianapolis, Indiana; Ronald McDonald House – Minneapolis, Minnesota; National Association of Women in Construction – St. Louis, Missouri; Salvation Army – Washington, D.C.; Gleaners Food Bank – Indianapolis, Indiana

BOARD OF DIRECTORS



Standing: Peter M. Scott — Retired Chief Financial Officer, Progress Energy, Inc.; Lynn C. Thurber — Non-Executive Chairman, LaSalle Investment Management; Alan H. Cohen — Retired Co-Founder and Chairman, The Finish Line; Dennis D. Oklak — Chairman and Chief Executive Officer, Duke Realty Corporation; Robert J. Woodward, Jr. — Chairman, Palmer-Donavin Manufacturing Co.; William Cavanaugh III — Lead Director; Chairman Emeritus, World Association of Nuclear Operators; Ngaire E. Cuneo — Partner, Red Associates, LLC; Jack R. Shaw — President, The Regenstrief Foundation; Charles R. Eitel — Co-Founder, Eitel & Armstrong

Seated: Thomas J. Baltimore, Jr. — President and Chief Executive Officer, RLJ Lodging Trust; Melanie R. Sabelhaus — Vice Chair, Board of Governors, American Red Cross; Dr. Martin C. Jischke — President Emeritus, Purdue University

LEADERSHIP TEAM

Dennis D. Oklak
Chairman and
Chief Executive Officer

James B. Connor
Chief Operating Officer

Mark A. Denien
Chief Financial Officer

Nicholas C. Anthony
Chief Investment Officer

James D. Bremner
President,
Healthcare

Ann C. Dee
General Counsel

J. Samuel O'Briant
Executive Vice President,
Eastern Region

Jeffrey D. Turner
Executive Vice President,
Western Region

Steven R. Kennedy
Executive Vice President,
Construction

Denise K. Dank
Chief Human Resources
Officer

Paul R. Quinn
Chief Information Officer and
Strategic Execution Officer

SELECTED FINANCIAL DATA

The following table sets forth selected financial and operating information on a historical basis for Duke Realty Corporation for each of the years in the five-year period ended December 31, 2013. The terms "we," "us" and "our" refer to Duke Realty Corporation and subsidiaries (the "Company") and those entities owned or controlled by the Company. 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):

	2013	2012	2011	2010	2009
Results of Operations:					
Revenues:					
Rental and related revenue from continuing operations	\$ 875,194	\$ 771,625	\$ 686,242	\$ 618,315	\$ 581,200
General contractor and service fee revenue	206,596	275,071	521,796	515,361	449,509
Total revenues from continuing operations	\$ 1,081,790	\$ 1,046,696	\$ 1,208,038	\$ 1,133,676	\$ 1,030,709
Income (loss) from continuing operations	\$ 61,546	\$ (85,549)	\$ (3,096)	\$ 44,340	\$ (222,651)
Net income (loss) attributable to common shareholders	\$ 153,044	\$ (126,145)	\$ 31,416	\$ (14,108)	\$ (333,601)
Per Share Data:					
Basic income (loss) per common share:					
Continuing operations	\$ 0.06	\$ (0.52)	\$ (0.27)	\$ (0.16)	\$ (1.43)
Discontinued operations	0.41	0.04	0.38	0.09	(0.24)
Diluted income (loss) per common share:					
Continuing operations	0.06	(0.52)	(0.27)	(0.16)	(1.43)
Discontinued operations	0.41	0.04	0.38	0.09	(0.24)
Dividends paid per common share	\$ 0.68	\$ 0.68	\$ 0.68	\$ 0.68	\$ 0.76
Weighted average common shares outstanding	322,133	267,900	252,694	238,920	201,206
Weighted average common shares and potential dilutive securities	326,712	267,900	259,598	238,920	201,206
Balance Sheet Data (at December 31):					
Total Assets	\$ 7,752,614	\$ 7,560,101	\$ 7,004,437	\$ 7,644,276	\$ 7,304,279
Total Debt	4,254,376	4,446,170	3,809,589	4,207,079	3,854,032
Total Preferred Equity	447,683	625,638	793,910	904,540	1,016,625
Total Shareholders' Equity	3,013,243	2,591,414	2,714,686	2,945,610	2,925,345
Total Common Shares Outstanding	326,399	279,423	252,927	252,195	224,029
Other Data:					
Funds from Operations attributable to common shareholders (1)	\$ 347,041	\$ 265,204	\$ 274,616	\$ 297,955	\$ 142,597

(1) In addition to net income (loss) computed in accordance with accounting principles generally accepted in the United States of America ("GAAP"), we assess and measure our overall operating results based upon Funds From Operations ("FFO"), which is an industry performance measure that management believes is a useful indicator of consolidated 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 Realty Corporation. The National Association of Real Estate Investment Trusts ("NAREIT") created FFO as a non-GAAP supplemental measure of REIT operating performance. FFO, as defined by NAREIT, represents GAAP net income (loss), excluding extraordinary items as defined under GAAP, gains or losses from sales of previously depreciated real estate assets, impairment charges related to depreciable real estate assets, plus certain non-cash items such as real estate asset depreciation and amortization, and after similar adjustments for unconsolidated partnerships and joint ventures. The most comparable GAAP measure is net income (loss) attributable to common shareholders. FFO attributable to common shareholders should not be considered as a substitute for net income (loss) attributable to common shareholders or any other measures derived in accordance with GAAP and may not be comparable to other similarly titled measures of other companies. FFO is calculated in accordance with the definition that was adopted by the Board of Governors of NAREIT.

Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry analysts and investors have considered presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Management believes that the use of FFO attributable to common shareholders, combined with net income (which remains the primary measure of performance), improves the understanding of operating results of REITs among the investing public and makes comparisons of REIT operating results more meaningful. Management believes that the use of FFO as a performance measure enables investors and analysts to readily identify the operating results of the long-term assets that form the core of a REIT's activity and assist them in comparing these operating results between periods or between different companies.

See reconciliation of FFO to GAAP net income (loss) attributable to common shareholders under the caption "Year in Review" under "Management's Discussion and Analysis of Financial Condition and Results of Operations."

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in or incorporated by reference into this report, including, without limitation, those related to our future operations, constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words "believe," "estimate," "expect," "anticipate," "intend," "plan," "seek," "may" and similar expressions or statements regarding future periods are intended to identify forward-looking statements.

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

- Changes in general economic and business conditions, including the financial condition of our tenants and the value of our real estate assets;
- Our continued qualification as a real estate investment trust ("REIT") for U.S. federal income tax purposes;
- Heightened competition for tenants and potential decreases in property occupancy;
- Potential changes in the financial markets and interest rates;
- Volatility in our stock price and trading volume;
- Our continuing ability to raise funds on favorable terms;
- Our ability to successfully identify, acquire, develop and/or manage properties on terms that are favorable to us;
- Potential increases in real estate construction costs;
- Our ability to successfully dispose of properties on terms that are favorable to us, including, without limitation, through one or more transactions that are consistent with our previously disclosed strategic plans;
- Our ability to retain our current credit ratings;
- Inherent risks in the real estate business, including, but not limited to, tenant defaults, potential liability relating to environmental matters and liquidity of real estate investments; and
- Other risks and uncertainties described herein, as well as those risks and uncertainties discussed from time to time in our other reports and other public filings with the Securities and Exchange Commission ("SEC").

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, including those beyond our control. New factors emerge from time to time, and it is not possible for us to predict the nature, or assess the potential impact, of each new factor on our business. Given these uncertainties, we caution you not to place undue reliance on these forward-looking statements. We undertake no obligation to update or revise any of our forward-looking statements for events or circumstances that arise after the statement is made, except as otherwise may be required by law.

This list of risks and uncertainties, however, is only a summary of some of the most important factors and is not intended to be exhaustive. We have on file with the SEC an Annual Report on Form 10-K dated February 21, 2014 with additional risk factor information.

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 in 1986. In 1993, in connection with a secondary offering of our common shares we contributed all of our properties and related assets and liabilities to Duke Realty Limited Partnership ("DRLP"), through which we have subsequently conducted substantially all of our operations. Concurrent with the formation of DRLP we obtained control of Duke Associates, a full-service commercial real estate firm operating in the Midwest whose operations began in 1972. As of December 31, 2013, we:

- Owned or jointly controlled 754 industrial, office, medical office and other properties, of which 730 properties with approximately 146.5 million square feet were in service and 24 properties with approximately 6.1 million square feet were under development. The 730 in-service properties were comprised of 623 consolidated properties with approximately 124.0 million square feet and 107 jointly controlled properties with more than 22.5 million square feet. The 24 properties under development consisted of 22 consolidated properties with more than 4.3 million square feet and two jointly controlled properties with approximately 1.8 million square feet.
- Owned, including through ownership interests in unconsolidated joint ventures, more than 4,100 acres of land and controlled an additional 1,600 acres through purchase options.

A key component of our overall strategy is to increase our investment in quality industrial properties in both existing and select new markets and to reduce our investment in suburban office properties and other non-strategic assets. By the end of 2013, we had achieved the asset allocation objectives that we had established in late 2009 to increase our industrial assets to 60%, while reducing our office assets to 25% or less, of our total asset concentration.

We have four reportable operating segments at December 31, 2013, the first three of which consist of the ownership and rental of (i) industrial, (ii) office and (iii) medical office real estate investments. The operations of our industrial, office and medical office properties, along with our retail properties, are collectively referred to as "Rental Operations." Our retail properties, as well as any other properties not included in our reportable segments, do not by themselves meet the quantitative thresholds for separate presentation as a reportable segment. The fourth reportable segment consists of various real estate services such as property management, asset management, maintenance, leasing, development, general contractor and construction management to third-party property owners and joint ventures, and is collectively referred to as "Service Operations." Our reportable segments offer different products or services and are managed separately because each segment requires different operating strategies and management expertise. Our Service Operations segment also includes our taxable REIT subsidiary, a legal entity through which certain of the segment's operations are conducted.

Operational Strategy

Our operational focus is to drive profitability by maximizing cash from operations as well as FFO through (i) maintaining and increasing property occupancy and rental rates, while also keeping lease-related capital costs contained, by effectively managing our portfolio of existing properties; (ii) selectively developing new build-to-suit, substantially pre-leased and, in limited circumstances, speculative development projects; (iii) leveraging our construction expertise to act as a general contractor or construction manager on a fee basis; and (iv) providing a full line of real estate services to our tenants and to third parties.

Asset Strategy

Our asset strategy is to reposition our investment concentration among product types and further diversify our geographic presence. Our strategic objectives include (i) increasing our investment in quality industrial properties in both existing markets and select new markets; (ii) managing our medical office portfolio nationally to focus on hospital system relationships in order to take advantage of demographic

trends; (iii) increasing our asset investment in markets we believe provide the best potential for future rental growth; (iv) reducing our investment in suburban office properties located primarily in the Midwest as well as reducing our investment in other non-strategic assets; and (v) monetizing our land inventory through new development activity as well as sales of surplus land. We are continuing to execute our asset strategy through a disciplined approach by identifying development and acquisition opportunities, while continually evaluating our portfolio for disposition by regularly identifying assets that no longer meet our long-term objectives.

Capital Strategy

Our capital strategy is to maintain a strong balance sheet by actively managing the components of our capital structure, in coordination with the execution of our overall operational and asset strategies. We are focused on maintaining investment grade ratings from our credit rating agencies with the ultimate goal of further improving the key metrics that formulate our credit ratings.

In support of our capital strategy, we employ an asset disposition program to sell non-strategic real estate assets, which generates proceeds that can be recycled into new property investments that better fit our growth objectives or can be used to reduce leverage and otherwise manage our capital structure.

We continue to focus on improving our balance sheet by maintaining a balanced and flexible capital structure which includes: (i) extending and sequencing the maturity dates of our outstanding debt obligations; (ii) borrowing primarily at fixed rates by targeting a variable rate component of total debt less than 20%; and (iii) issuing common equity as needed to maintain appropriate leverage parameters or support significant strategic developments or acquisitions. With our successes to date and continued focus on maintaining a strong balance sheet, we believe we are well-positioned for future growth.

YEAR IN REVIEW

The overall economic environment improved modestly in 2013. Unresolved issues of spending cuts, the national debt ceiling and the government shutdown led to uncertainty for the U.S. economy during much of the year. While some of these issues are now resolved for the short term, they did have an impact on the economy and our business. Despite these challenges, we believe 2013 to have been a very successful year across all aspects of our strategic focus. Our performance in 2013 included increasing the already strong level of occupancy at which we completed 2012 as well as increasing the size and pre-leased percentage of our development pipeline.

Net income attributable to common shareholders for the year ended December 31, 2013, was \$153.0 million, or \$0.47 per share (diluted), compared to net loss of \$126.1 million, or \$0.48 per share (diluted) for the year ended December 31, 2012. The net income position for 2013, when compared to the net loss reported for 2012, was primarily the result of significant gains on property sales, for both consolidated properties and for our share of gains recognized within our unconsolidated joint ventures. The significant increase to gains from property sales was partially offset by increased depreciation expense in 2013 that resulted from carrying a larger base of properties. A substantial portion of the property sale activity occurred late in 2013, which mitigated the impact on operations from these dispositions.

FFO attributable to common shareholders totaled \$347.0 million for the year ended December 31, 2013, compared to \$265.2 million for 2012. We executed a 79-building suburban office portfolio sale (the "Blackstone Office Disposition") in late 2011, and the proceeds were not fully re-invested until the second half of 2012. Additionally, we issued 41.4 million shares of common stock in January 2013, generating net proceeds of approximately \$571.9 million, which were re-invested into new property acquisitions as well as used to redeem our \$178.0 million of 8.375% Series O Cumulative Redeemable Preferred Shares ("Series O Shares"). The investment of both the proceeds from the Blackstone Office Disposition and our January 2013 common stock offering resulted in the Company carrying a significantly higher base of real estate assets in 2013 compared to 2012, and therefore generating increased rental income throughout 2013. The higher base of real estate assets, coupled with the reduction of preferred dividends resulting from the aforementioned redemption, drove the increased FFO in 2013. Improved occupancy and operations throughout our real estate portfolio also contributed to the increase in FFO from 2012.

In addition to net income (loss) computed in accordance with GAAP, we assess and measure our overall operating results based upon FFO, which is an industry performance measure that management believes is a useful indicator of consolidated operating performance. FFO is used by industry analysts and investors as a supplemental operating performance measure of a REIT. NAREIT created FFO as a non-GAAP supplemental measure of REIT operating performance. FFO, as defined by NAREIT, represents GAAP net income (loss), excluding extraordinary items as defined under GAAP, gains or losses from sales of previously depreciated real estate assets, impairment charges related to depreciable real estate assets, plus certain non-cash items such as real estate asset depreciation and amortization, and after similar adjustments for unconsolidated partnerships and joint ventures. The most comparable GAAP measure is net income (loss) attributable to common shareholders. FFO attributable to common shareholders should not be considered as a substitute for net income (loss) attributable to common shareholders or any other measures derived in accordance with GAAP and may not be comparable to other similarly titled measures of other companies. FFO is calculated in accordance with the definition that was adopted by the Board of Governors of NAREIT.

Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry analysts and investors have considered presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Management believes that the use of FFO attributable to common shareholders, combined with net income (which remains the primary measure of performance), improves the understanding of operating results of REITs among the investing public and makes comparisons of REIT operating results more meaningful. Management believes that the use of FFO as a performance measure enables investors and analysts to readily identify the operating results of the long-term assets that form the core of a REIT's activity and assist them in comparing these operating results between periods or between different companies.

The following table shows a reconciliation of net income (loss) attributable to common shareholders to the calculation of FFO attributable to common shareholders for the years ended December 31, 2013, 2012 and 2011, respectively (in thousands):

	2013	2012	2011
Net income (loss) attributable to common shareholders	\$ 153,044	\$ (126,145)	\$ 31,416
Adjustments:			
Depreciation and amortization	409,050	379,419	385,679
Company share of joint venture depreciation and amortization	31,220	34,702	33,687
Earnings from depreciable property sales—wholly owned	(192,421)	(13,811)	(169,431)
Earnings from depreciable property sales—share of joint venture	(51,207)	(1,907)	(91)
Noncontrolling interest share of adjustments	(2,645)	(7,054)	(6,644)
Funds From Operations attributable to common shareholders	\$ 347,041	\$ 265,204	\$ 274,616

In accordance with our strategic plans, we increased our investment in industrial and medical office properties while reducing our investment in suburban office properties. Additionally, we continued to improve our operational metrics, which evidences the continued execution of our operational strategy. Highlights of our 2013 strategic and operational activities are as follows:

- We had development starts with expected total costs of \$665.8 million during 2013 across all product types, which includes our share of expected total costs for two industrial development starts within a 50%-owned unconsolidated joint venture. These 2013 development starts were, in aggregate, 90.5% pre-leased.
- During 2013, we placed 19 wholly-owned developments in service, across all product types, which totaled 4.4 million square feet with estimated total costs, after the properties are fully leased, of \$481.7 million. These properties were 90.5% leased at December 31, 2013.

- We increased our level of development investment during 2013 as compared to the last few years. The total estimated cost of our consolidated properties under construction was \$572.6 million at December 31, 2013, with \$249.9 million of such costs incurred through that date. The total estimated cost for jointly controlled properties under construction was \$76.5 million at December 31, 2013, with \$10.9 million of costs incurred through that date. The consolidated properties under construction are 85% pre-leased, while the jointly controlled properties under construction are 100% pre-leased.
- During 2013, we acquired 16 industrial properties, totaling 8.0 million rentable square feet, and one medical office property with a total combined value of \$553.3 million. These properties were, in aggregate, 99.8% leased at their acquisition dates.
- We generated \$740.0 million of total net cash proceeds from the disposition of 38 consolidated buildings and 277 acres of wholly-owned undeveloped land. These dispositions included 18 medical office properties in markets, or associated with healthcare systems, where we did not anticipate significant future growth. An additional 13 of the properties sold during 2013 were suburban office properties, primarily located in the Midwest.
- The percentage of total square feet leased for our in-service portfolio of consolidated properties increased from 92.7% at December 31, 2012 to 94.1% at December 31, 2013.
- We continued to have strong total leasing activity for our consolidated properties, with total leasing activity of 24.5 million square feet in 2013 compared to 24.2 million square feet in 2012.
- Total leasing activity for our consolidated properties in 2013 included 11.7 million square feet of renewals, which represented a 68.3% retention rate on a square foot basis, and resulted in a 2.4% increase in net effective rents. Lease expirations for the year were, for the most part, backfilled with new tenants, and the increased second generation leasing volume more than compensated for a decreased level of renewals.

We executed a number of significant transactions in support of our capital strategy during 2013 in order to optimally sequence our unsecured debt maturities, manage our overall leverage profile, reduce our cost of capital and support our development and acquisition priorities in alignment with our asset strategy. Highlights of our key financing activities are as follows:

- In January 2013, we completed a public offering of 41.4 million common shares at an issue price of \$14.25 per share, resulting in gross proceeds of \$590.0 million and, after deducting underwriting fees and offering costs, net proceeds of approximately \$571.9 million.
- Throughout 2013, we issued 4.8 million shares of common stock pursuant to our at the market ("ATM") equity program at an average price of \$16.67 per share, generating gross proceeds of approximately \$79.3 million and, after considering commissions and other costs, net proceeds of approximately \$77.8 million.
- In February 2013, we redeemed all of the outstanding shares of our Series O Shares, which were redeemable as of February 22, 2013, at a liquidation amount of \$178.0 million. The redemption of the Series O Shares resulted in an on-going annual reduction to preferred dividends of nearly \$15 million per year.
- During 2013, we issued \$500.0 million of unsecured bonds at a weighted average stated and effective rate of 3.8%, and a \$250.0 million unsecured term loan that bears interest at a variable rate of LIBOR plus 1.35%.
- During 2013, we repaid \$675.0 million of unsecured bonds, which had a weighted average stated interest rate of 5.57%. We also repaid twelve secured loans during 2013, totaling \$153.8 million, which had a weighted average stated interest rate of 5.52%.

KEY PERFORMANCE INDICATORS

Our operating results depend primarily upon rental income from our Rental Operations. The following discussion highlights the areas of Rental Operations that we consider critical drivers of future revenues.

Occupancy Analysis: As previously discussed, our ability to maintain high occupancy rates is a principal driver of maintaining and increasing rental revenue from continuing operations. The following table sets forth percent leased and average net effective rent information regarding our in-service portfolio of consolidated rental properties at December 31, 2013 and 2012, respectively (in thousands, except percentage data):

Type	Total Square Feet		Percent of Total Square Feet		Percent Leased*		Average Annual Net Effective Rent**	
	2013	2012	2013	2012	2013	2012	2013	2012
Industrial	104,623	94,080	84.4 %	81.4 %	95.0 %	94.3 %	\$3.93	\$3.89
Office	14,423	15,715	11.6 %	13.6 %	87.8 %	84.3 %	\$13.35	\$13.30
Medical Office	4,566	5,048	3.7 %	4.4 %	93.2 %	91.1 %	\$22.51	\$21.57
Other	348	739	0.3 %	0.6 %	85.7 %	88.1 %	\$19.71	\$24.24
Total	123,960	115,582	100.0 %	100.0 %	94.1 %	92.7 %	\$5.67	\$5.94

* Represents the percentage of total square feet leased based on executed leases and without regard to whether the leases have commenced.

** Represents average annual base rental payments per leased square foot, on a straight-line basis for the term of each lease, from space leased to tenants at the end of the most recent reporting period. This amount excludes additional amounts paid by tenants as reimbursement for operating expenses.

The increase in occupancy at December 31, 2013 compared to December 31, 2012 was driven by increased leasing activity, as well as acquisition and disposition activity in 2013. The 3.7 million square feet of properties that we disposed of during 2013 were less than 90% leased in the aggregate, while the 8.1 million square feet of properties that we acquired during the year were nearly 100% leased.

The average annual net effective rent for our industrial, office and medical office properties increased from 2012 to 2013 within each of these product types. The decrease in our overall average annual net effective rent per square foot is primarily the result of a shift in product mix, as we have increased our concentration in industrial properties.

Total Leasing Activity

The initial leasing of development projects or vacant space in acquired properties is referred to as first generation lease activity. The leasing of such space that we have previously held under lease is referred to as second generation lease activity. The total leasing activity for our consolidated rental properties, expressed in square feet of leases signed during the period, is as follows for the years ended December 31, 2013 and 2012, respectively (in thousands):

	2013	2012
New Leasing Activity - First Generation	5,787	5,628
New Leasing Activity - Second Generation	7,019	4,911
Renewal Leasing Activity	11,684	13,626
Total Leasing Activity	24,490	24,165

We were able to quickly backfill expiring leases in 2013, which compensated for the decreased renewal volume, while slightly increasing our volume of first generation leases in new developments.

New Second Generation Leases

The following table sets forth the estimated costs of tenant improvements and leasing commissions, on a per square foot basis, that we are obligated to fulfill under the new second generation leases signed for our consolidated rental properties during the years ended December 31, 2013 and 2012, respectively (square feet data in thousands):

	Square Feet of New Second Generation Leases Signed		Average Term in Years		Estimated Tenant Improvement Cost per Square Foot		Leasing Commissions per Square Foot	
	2013	2012	2013	2012	2013	2012	2013	2012
Industrial	5,811	3,900	5.2	7.0	\$ 2.45	\$ 2.65	\$ 1.53	\$ 1.55
Office	1,167	972	6.8	6.7	\$ 17.95	\$ 17.36	\$ 7.08	\$ 7.33
Medical Office	41	39	5.6	6.6	\$ 13.00	\$ 15.41	\$ 3.38	\$ 6.67
Total	7,019	4,911	5.5	6.9	\$ 5.09	\$ 5.66	\$ 2.46	\$ 2.73

The increase in new second generation leases in 2013 was, to a large extent, correlated with the decrease in renewals and was driven by our ability to backfill several planned lease expirations throughout the year.

Lease Renewals

The following table summarizes our lease renewal activity within our consolidated rental properties for the years ended December 31, 2013 and 2012, respectively (square feet data in thousands):

	Square Feet of Leases Renewed		Percent of Expiring Leases Renewed		Average Term in Years		Growth (Decline) in Net Effective Rents*		Estimated Tenant Improvement Cost per Square Foot		Leasing Commissions per Square Foot	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Industrial	9,653	12,168	66.2%	85.4%	4.3	5.2	4.0%	1.0%	\$ 0.72	\$ 0.42	\$ 0.96	\$ 0.80
Office	1,978	1,431	83.0%	73.0%	4.8	4.1	—%	2.2%	\$ 5.81	\$ 3.35	\$ 4.68	\$ 3.01
Medical Office	53	27	38.5%	39.1%	3.8	6.5	6.0%	6.1%	\$ 4.05	\$ 1.59	\$ 2.80	\$ 1.14
Total	11,684	13,626	68.3%	83.7%	4.4	5.1	2.4%	1.4%	\$ 1.60	\$ 0.73	\$ 1.60	\$ 1.03

* Represents the percentage change in net effective rent between the original leases and the renewal leases. Net effective rents represent average annual base rental payments, on a straight-line basis for the term of each lease, excluding operating expense reimbursements.

We experienced several lease expirations during 2013, including several significant industrial leases across several markets. As evidenced by the increased second generation leasing volume, we were able to backfill a significant component of our 2013 expirations.

Lease Expirations

Our ability to maintain and improve occupancy rates and net effective rents primarily depends upon our continuing ability to re-lease expiring space. The following table reflects our consolidated in-service portfolio lease expiration schedule, including square footage and annualized net effective rent, for expiring leases by property type at December 31, 2013 (in thousands, except percentage data):

	Total Consolidated Portfolio			Industrial		Office		Medical Office		Other	
Year of Expiration	Square Feet	Ann. Rent Revenue*	% of Rev.	Square Feet	Ann. Rent Revenue*	Square Feet	Ann. Rent Revenue*	Square Feet	Ann. Rent Revenue*	Sq. Feet	Ann. Rent Revenue
2014	11,158	\$ 53,397	8 %	9,779	\$ 36,679	1,243	\$ 14,366	132	\$ 2,232	4	\$ 120
2015	12,380	62,816	10 %	10,666	40,325	1,646	21,119	60	1,196	8	176
2016	14,543	74,399	11 %	12,526	46,365	1,782	23,303	216	4,374	19	357
2017	14,009	74,291	11 %	12,308	48,617	1,384	18,796	244	5,169	73	1,709
2018	12,589	76,089	12 %	10,232	39,394	1,882	25,225	398	9,998	77	1,472
2019	10,551	57,864	9 %	8,945	33,917	1,366	17,875	228	5,788	12	284
2020	10,751	61,021	9 %	9,335	37,605	946	14,093	460	9,066	10	257
2021	7,974	44,174	7 %	6,804	26,733	919	11,593	238	5,576	13	272
2022	5,675	30,185	5 %	5,018	17,234	245	4,339	390	8,165	22	447
2023	2,989	26,731	4 %	2,101	10,462	464	7,395	418	8,725	6	149
2024 and Thereafter	13,973	100,065	14 %	11,665	53,090	782	10,889	1,472	35,444	54	642
Total Leased	116,592	\$661,032	100 %	99,379	\$390,421	12,659	\$168,993	4,256	\$ 95,733	298	\$ 5,885
Total Portfolio Square Feet	123,960			104,623		14,423		4,566		348	
Percent Leased	94.1%			95.0%		87.8%		93.2%		85.7%	

* Annualized rental revenue represents average annual base rental payments, on a straight-line basis for the term of each lease, from space leased to tenants at the end of the most recent reporting period. Annualized rental revenue excludes additional amounts paid by tenants as reimbursement for operating expenses.

Information on current market rents can be difficult to obtain, is highly subjective, and is often not directly comparable between properties. As a result, we believe the increase or decrease in net effective rent on lease renewals, as previously defined, is the most objective and meaningful relationship between rents on leases expiring in the near-term and current market rents.

Acquisition Activity

Our decision process in determining whether or not to acquire a target property or portfolio involves several factors, including expected rent growth, multiple yield metrics, property locations and expected demographic growth in each location, current occupancy of the target properties, tenant profile and remaining terms of the in-place leases in the target properties. We pursue both brokered and non-brokered acquisitions, and it is difficult to predict which markets and product types may present acquisition opportunities that align with our strategy. Because of the numerous factors considered in our acquisition decisions, we do not establish specific target yields for future acquisitions.

We acquired 17 properties during the year ended December 31, 2013 and 37 properties during the year ended December 31, 2012. The following table summarizes the acquisition price, percent leased at time of acquisition and in-place yields, by product type, for these acquisitions (in thousands, except percentage data):

Type	2013 Acquisitions			2012 Acquisitions		
	Acquisition Price*	In-Place Yield**	Percent Leased at Acquisition Date***	Acquisition Price*	In-Place Yield**	Percent Leased at Acquisition Date***
Industrial	\$ 532,808	6.1%	100.0%	\$ 265,203	6.6%	94.9%
Medical Office	20,500	6.9%	82.3%	514,455	6.5%	92.9%
Total	\$ 553,308	6.2%	99.8%	\$ 779,658	6.5%	94.4%

* Includes real estate assets and net acquired lease-related intangible assets, including above or below market leases, but excludes other acquired working capital assets and liabilities.

** In-place yields of completed acquisitions are calculated as the current annualized net rental payments from space leased to tenants at the date of acquisition, divided by the acquisition price of the acquired real estate. Annualized net rental payments are comprised of base rental payments, excluding additional amounts payable by tenants as reimbursement for operating expenses, less current annualized operating expenses not recovered through tenant reimbursements.

*** Represents percentage of total square feet leased based on executed leases and without regard to whether the leases have commenced, at the date of acquisition.

Disposition Activity

We regularly work to identify, consider and pursue opportunities to dispose of properties on an opportunistic basis and on a basis that is generally consistent with our strategic plans. We sold 38 buildings during the year ended December 31, 2013 and 28 buildings during the year ended December 31, 2012. The following table summarizes the sales prices, in-place yields and percent leased, by product type, of these buildings (in thousands, except percentage data):

Type	2013 Dispositions			2012 Dispositions		
	Sales Price	In-Place Yield*	Percent Leased**	Sales Price	In-Place Yield*	Percent Leased**
Industrial	\$ 16,499	6.3%	50.1%	\$ 60,913	8.4%	79.3%
Office	219,254	8.3%	91.8%	58,881	7.1%	79.4%
Medical Office	285,850	6.4%	90.1%	—	—%	—%
Other	188,000	5.0%	89.8%	11,400	9.0%	80.5%
Total	\$ 709,603	6.6%	86.8%	\$ 131,194	7.9%	79.4%

* In-place yields of completed dispositions are calculated as current annualized net rental payments from space leased to tenants at the date of sale, divided by the sales price of the real estate. Annualized net rental payments are comprised of base rental payments, excluding additional amounts payable by tenants as reimbursement for operating expenses, less current annualized operating expenses not recovered through tenant reimbursements.

** Represents percentage of total square feet leased based on executed leases and without regard to whether the leases have commenced, at the date of sale.

During 2013, 18 medical office properties totaling 1.1 million square feet in various markets sold for \$285.9 million. The properties sold in these transactions were in markets, or were associated with health systems, where we did not believe there to be significant future growth potential.

In May 2013, we sold a 391,000 square foot retail property in South Florida for \$188.0 million.

Throughout 2013, 19 office properties and one industrial property were sold by two of our unconsolidated joint ventures for which capital distributions to us totaled \$92.3 million. Our share of gains from joint venture property sales, which are included in equity in earnings, related almost entirely to these sales and totaled \$51.2 million.

Development

Another source of our earnings growth is our wholly-owned and joint venture development activities. We expect to generate future earnings from Rental Operations as the development properties are placed in service and leased. We increased our development activities in 2013 for industrial and medical office properties with significant pre-leasing, as well as for speculative developments, in limited circumstances, in markets that we believe will provide future growth. We believe these two product lines will be the areas of greatest future growth.

We had 6.1 million square feet of consolidated or jointly controlled properties under development with total estimated costs upon completion of \$649.2 million at December 31, 2013, compared to 4.4 million square feet of property under development with total estimated costs of \$578.5 million at December 31, 2012. The square footage and estimated costs include both wholly-owned and joint venture development activity at 100%. The following table summarizes our properties under development at December 31, 2013 (in thousands, except percentage data):

Ownership Type	Square Feet	Percent Leased	Total Estimated Project Costs	Total Incurred to Date	Amount Remaining to be Spent
Consolidated properties	4,337	85%	\$ 572,604	\$ 249,885	\$ 322,719
Joint venture properties	1,758	100%	76,547	10,911	65,636
Total	6,095	89%	\$ 649,151	\$ 260,796	\$ 388,355

We directly own over 3,200 acres of undeveloped land, of which we intend to develop approximately 2,500 acres. We believe that the land we intend to develop can support approximately 41.7 million square feet of primarily industrial, but also office and medical office, developments.

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, 2013, is as follows (in thousands, except number of properties and per share data):

	2013	2012	2011
Rental and related revenue from continuing operations	\$ 875,194	\$ 771,625	\$ 686,242
General contractor and service fee revenue	206,596	275,071	521,796
Operating income	296,000	148,018	204,010
Net income (loss) attributable to common shareholders	153,044	(126,145)	31,416
Weighted average common shares outstanding	322,133	267,900	252,694
Weighted average common shares and potential dilutive securities	326,712	267,900	259,598
Basic income (loss) per common share:			
Continuing operations	\$ 0.06	\$ (0.52)	\$ (0.27)
Discontinued operations	\$ 0.41	\$ 0.04	\$ 0.38
Diluted income (loss) per common share:			
Continuing operations	\$ 0.06	\$ (0.52)	\$ (0.27)
Discontinued operations	\$ 0.41	\$ 0.04	\$ 0.38
Number of in-service consolidated properties at end of year	623	629	616
In-service consolidated square footage at end of year	123,960	115,582	110,296
Number of in-service joint venture properties at end of year	107	126	126
In-service joint venture square footage at end of year	22,518	25,614	25,295

COMPARISON OF YEAR ENDED DECEMBER 31, 2013 TO YEAR ENDED DECEMBER 31, 2012

Rental and Related Revenue

The following table sets forth rental and related revenue from continuing operations by reportable segment, as well as total rental and related revenue from discontinued operations, for the years ended December 31, 2013 and 2012, respectively (in thousands):

	2013	2012
Rental and related revenue:		
Industrial	\$ 483,679	\$ 431,277
Office	251,270	242,719
Medical Office	127,475	82,962
Other	12,770	14,667
Total rental and related revenue from continuing operations	\$ 875,194	\$ 771,625
Rental and related revenue from discontinued operations	46,066	71,028
Total rental and related revenue from continuing and discontinued operations	\$ 921,260	\$ 842,653

The primary reasons for the increase in rental revenue from continuing operations, with specific references to a particular segment when applicable, are summarized below:

- We acquired 54 properties, of which 26 were industrial and 28 were medical office, and placed 21 developments in service from January 1, 2012 to December 31, 2013, which provided incremental revenues of \$94.5 million in the year ended December 31, 2013 over 2012.
- Rental and related revenue includes lease termination fees, which relate to specific tenants who pay a fee to terminate their lease obligation before the end of the contractual lease term. Lease termination fees included in continuing operations increased from \$6.0 million in 2012 to \$8.7 million in 2013.
- The remaining increase in rental and related revenue from continuing operations was primarily due to increased rental expense recoveries that were attributable to an increase in snow removal costs, as the winter months of 2012 were significantly milder for many of our markets than they were in 2013. An increase in recoverable repair and maintenance costs, increased occupancy and increased rental rates also contributed, to a lesser extent, to the remaining increase in rental and related revenue from continuing operations.

Rental Expenses and Real Estate Taxes

The following table sets forth rental expenses and real estate taxes from continuing operations by reportable segment, as well as total rental expenses and real estate taxes from discontinued operations, for the years ended December 31, 2013 and 2012, respectively (in thousands):

	2013	2012
Rental expenses:		
Industrial	\$ 49,165	\$ 42,830
Office	75,008	71,910
Medical Office	30,455	19,386
Other	4,380	3,671
Total rental expenses from continuing operations	\$ 159,008	\$ 137,797
Rental expenses from discontinued operations	12,049	17,593
Total rental expenses from continuing and discontinued operations	\$ 171,057	\$ 155,390
Real estate taxes:		
Industrial	\$ 73,745	\$ 66,074
Office	29,550	29,693
Medical Office	11,725	8,166
Other	2,727	2,195
Total real estate tax expense from continuing operations	\$ 117,747	\$ 106,128
Real estate tax expense from discontinued operations	5,728	8,546
Total real estate tax expense from continuing and discontinued operations	\$ 123,475	\$ 114,674

Rental expenses from continuing operations increased by \$21.2 million in 2013 compared to 2012. We recognized incremental rental expenses of \$11.7 million associated with the 54 properties acquired and the 21 developments placed in service since January 1, 2012. The remaining increase in rental expenses was primarily a result of an increase in snow removal costs, as the winter months of 2012 were significantly milder for many of our markets than in 2013. An increase in repair and maintenance costs, increased insurance costs, as well as a slight increase due to higher occupancy, also contributed to the increased rental expenses from continuing operations.

Real estate taxes from continuing operations increased by \$11.6 million in 2013 compared to 2012. This increase was primarily due to the 54 properties acquired and the 21 developments placed in service since January 1, 2012, which resulted in incremental real estate tax expense of \$9.9 million.

Service Operations

The following table sets forth the components of the Service Operations reportable segment for the years ended December 31, 2013 and 2012, respectively (in thousands):

	2013	2012
Service Operations:		
General contractor and service fee revenue	\$ 206,596	\$ 275,071
General contractor and other services expenses	(183,833)	(254,870)
Total	\$ 22,763	\$ 20,201

Service Operations primarily consist of the leasing, property management, asset management, development, construction management and general contractor services for joint venture properties and properties owned by third parties. Service Operations are heavily influenced by the current state of the economy, as leasing and property management fees are dependent upon occupancy, while construction and development services rely on the expansion of business operations of third-party property owners and joint venture partners.

The increase in our earnings from Service Operations in 2013 compared to 2012 was the result of a \$4.2 million recovery in 2013 from a sub-contractor on a previously completed third-party construction job. The impact of this recovery on Service Operations was partially offset by a decrease in third-party construction volume from 2012, although third-party construction projects were performed at overall higher margins during 2013. The lower third-party construction volume for 2013 was mainly driven by our increased focus on wholly-owned development projects as opposed to third-party construction.

Depreciation and Amortization Expense

Depreciation and amortization expense increased from \$349.0 million in 2012 to \$393.5 million in 2013 primarily due to depreciation related to additions to our continuing operations asset base from properties acquired, which have shorter depreciable lives relative to developed properties, and developments placed in service in 2012 and 2013.

Equity in Earnings

Equity in earnings represents our ownership share of net income or loss from investments in unconsolidated companies that generally own and operate rental properties. Equity in earnings increased from \$4.7 million in 2012 to \$54.1 million in 2013. The increase was largely due to the sale of properties by two of our unconsolidated joint ventures in 2013. In January 2013, one of our unconsolidated joint ventures sold its only property, and we recorded \$12.2 million to equity in earnings for our share of the net gain. In March 2013, we sold our interest in 17 properties within another of our unconsolidated joint ventures to our partner in that venture, resulting in \$36.4 million recorded to equity in earnings for our share of the net gain on sale.

Gain on Sale of Properties - Continuing Operations

We sold 13 properties during 2013 that are classified in continuing operations, recognizing total gains on sale of \$59.2 million. Because we maintained varying forms of continuing involvement after the sale, either through retained management agreements or a continuing equity ownership interest, these properties did not meet the criteria for inclusion in discontinued operations.

Impairment Charges

Impairment charges classified in continuing operations include the impairment of undeveloped land and buildings, investments in unconsolidated subsidiaries and other real estate related assets. In 2013, we recognized an impairment charge of \$3.8 million related to 30 acres of land that was sold in early July 2013 at a price of \$22.2 million. This sale was the result of an unsolicited offer. We had not previously identified or actively marketed this land for disposition.

General and Administrative Expenses

General and administrative expenses consist of two components. The first component includes general corporate expenses, and the second component includes the indirect operating costs not allocated to, or absorbed by, the development or Rental Operations of our wholly-owned properties or our Service Operations. The indirect operating costs that are either allocated to, or absorbed by, the development or Rental Operations of our wholly owned properties, or our Service Operations, are primarily comprised of employee compensation, including related costs such as benefits and wage-related taxes, but also include other ancillary costs such as travel and information technology support. Total indirect operating costs, prior to any allocation or absorption, and general corporate expenses are collectively referred to as our overall pool of overhead costs.

Those indirect costs not allocated to or absorbed by these operations are charged to general and administrative expenses. We regularly review our total overhead cost structure relative to our leasing, development and construction volume and adjust the level of total overhead, generally through changes in our level of staffing in various functional departments, as necessary in order to control overall general and administrative expense.

General and administrative expenses decreased from \$46.4 million in 2012 to \$42.7 million in 2013. The following table sets forth the factors that led to the decrease in general and administrative expenses from 2012 to 2013 (in millions):

General and administrative expenses - 2012	\$	46.4
Reduction to overall pool of overhead costs		(2.0)
Increased absorption of costs by wholly-owned development and leasing activities (1)		(8.0)
Reduced allocation of costs to Service Operations and Rental Operations (2)		6.3
General and administrative expenses - 2013	\$	42.7

(1) We increased development volume for wholly owned properties, and also increased our leasing activity during 2013, which resulted in an increased absorption of overhead costs. We capitalized \$31.3 million and \$27.1 million of our total overhead costs to leasing and development, respectively, for consolidated properties during 2013, compared to capitalizing \$30.4 million and \$20.0 million of such costs, respectively, for 2012. Combined overhead costs capitalized to leasing and development totaled 35.7% and 31.1% of our overall pool of overhead costs for 2013 and 2012, respectively.

(2) The reduction in the allocation of overhead costs to Service Operations resulted from lower volume on third-party construction projects during 2013. We shifted our focus toward wholly-owned development activities, as opposed to third-party construction projects, during 2013.

Interest Expense

Interest expense allocable to continuing operations decreased from \$230.0 million in 2012 to \$228.9 million in 2013. We had \$18.3 million of interest expense allocated to discontinued operations in 2012, associated with the properties that were disposed of during 2012, compared to the allocation of \$10.9 million of interest expense to discontinued operations for 2013. The overall decrease to interest cost was driven by a lower weighted average cost of borrowing as well as increased capitalized interest due to the timing of development activities.

During 2013, we had more projects, which were financed in part by common equity issuances, that met the criteria for capitalization of interest. We capitalized \$16.8 million of interest costs during 2013 compared to \$9.4 million during 2012.

Loss on Debt Extinguishment

During 2013, we redeemed \$250.0 million in unsecured notes that had a scheduled maturity in August of 2014. We recognized a net loss on the extinguishment of these notes, totaling \$9.4 million, which was comprised of a make-whole payment to the bondholders of \$8.1 million as well as the write-off of unamortized deferred financing costs.

Discontinued Operations

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

The operations of 165 buildings are currently classified as discontinued operations. These 165 buildings consist of 115 office, 39 industrial, eight medical office and three retail properties. As a result, we classified operating income, before gain on sales, of \$1.8 million in discontinued operations for the year ended December 31, 2013 and operating losses, before gain on sales, of \$3.8 million and \$1.5 million in discontinued operations for the years ended December 31, 2012 and 2011 respectively.

Of these properties, 25 were sold during 2013, 28 properties were sold during 2012 and 101 properties were sold during 2011. The gains on disposal of these properties of \$133.2 million, \$13.5 million and \$100.9 million for the years ended December 31, 2013, 2012 and 2011, respectively, are also reported in discontinued operations. There are eleven properties classified as held-for-sale and included in discontinued operations at December 31, 2013.

COMPARISON OF YEAR ENDED DECEMBER 31, 2012 TO YEAR ENDED DECEMBER 31, 2011

Rental and Related Revenue

The following table sets forth rental and related revenue from continuing operations by reportable segment, as well as total rental and related revenue from discontinued operations, for the years ended December 31, 2012 and 2011, respectively (in thousands):

	2012	2011
Rental and related revenue:		
Industrial	\$ 431,277	\$ 367,992
Office	242,719	251,766
Medical Office	82,962	47,309
Other	14,667	19,175
Total rental and related revenue from continuing operations	\$ 771,625	\$ 686,242
Rental and related revenue from discontinued operations	71,028	250,807
Total rental and related revenue from continuing and discontinued operations	\$ 842,653	\$ 937,049

The primary reasons for the increase in rental revenue from continuing operations, with specific references to a particular segment when applicable, are summarized below:

- We acquired 96 properties, of which 51 were industrial and 38 were medical office, and placed eleven developments in service from January 1, 2011 to December 31, 2012, which provided incremental revenues of \$86.4 million in the year ended December 31, 2012 over 2011.
- The sale of 13 office properties to an unconsolidated joint venture in the first quarter of 2011 resulted in a \$10.1 million decrease in rental and related revenue from continuing operations in 2012, which partially offset the impact of newly acquired or developed properties.
- The remaining increase in rental and related revenue from continuing operations is primarily due to improved results within the properties that have been in service for all of 2011 and 2012. Higher levels of occupancy primarily drove the overall improvement within these properties, as rental rates increased modestly but did not significantly contribute to the increase in revenues from continuing operations.
- The overall shift of revenues and income from office properties to industrial and medical office properties is consistent with our continuing strategy to increase our asset concentration in industrial and medical office properties while reducing our overall investment in office properties.

The decrease in rental revenues from discontinued operations is primarily a result of the Blackstone Office Disposition that took place in December 2011.

Rental Expenses and Real Estate Taxes

The following table sets forth rental expenses and real estate taxes from continuing operations by reportable segment, as well as total rental expenses and real estate taxes from discontinued operations, for the years ended December 31, 2012 and 2011, respectively (in thousands):

	2012	2011
Rental expenses:		
Industrial	\$ 42,830	\$ 38,354
Office	71,910	71,760
Medical Office	19,386	13,935
Other	3,671	5,668
Total rental expenses from continuing operations	\$ 137,797	\$ 129,717
Rental expenses from discontinued operations	17,593	75,330
Total rental expenses from continuing and discontinued operations	\$ 155,390	\$ 205,047
Real estate taxes:		
Industrial	\$ 66,074	\$ 58,145
Office	29,693	31,270
Medical Office	8,166	4,350
Other	2,195	1,901
Total real estate tax expense from continuing operations	\$ 106,128	\$ 95,666
Real estate tax expense from discontinued operations	8,546	35,304
Total real estate tax expense from continuing and discontinued operations	\$ 114,674	\$ 130,970

Overall, rental expenses from continuing operations increased by \$8.1 million in 2012 compared to 2011. While we recognized incremental rental expenses of \$9.0 million associated with the additional 96 properties acquired and eleven developments placed in service since January 1, 2011, we also sold 13 office properties to an unconsolidated joint venture in late March 2011, which resulted in a \$2.8 million decrease in rental expenses from continuing operations in 2012 as compared to 2011.

Overall, real estate taxes from continuing operations increased by \$10.5 million in 2012 compared to 2011. We recognized incremental real estate tax expense of \$11.8 million associated with the additional 96 properties acquired and eleven developments placed in service since January 1, 2011. This increase was partially offset by a \$1.6 million decrease in real estate taxes from continuing operations related to the 13 properties that were sold to an unconsolidated joint venture during the first quarter of 2011.

Service Operations

The following table sets forth the components of the Service Operations reportable segment for the years ended December 31, 2012 and 2011, respectively (in thousands):

	2012	2011
Service Operations:		
General contractor and service fee revenue	\$ 275,071	\$ 521,796
General contractor and other services expenses	(254,870)	(480,480)
Total	\$ 20,201	\$ 41,316

A significant decrease in third-party construction volume in 2012 compared to 2011, due to some significant third-party construction jobs being completed, drove the decrease in our earnings from Service Operations. In 2012, we focused more of our internal resources on the development and leasing of properties we own rather than on replacing the third-party construction contracts that were completed.

Depreciation and Amortization Expense

Depreciation and amortization expense increased from \$305.1 million in 2011 to \$349.0 million in 2012 primarily due to depreciation related to additions to our continuing operations asset base from acquisition activity, which have shorter depreciable lives relative to developed properties, and developments placed in service in 2011 and 2012.

Gain on Sale of Properties - Continuing Operations

We sold 18 properties during 2011 that are classified in continuing operations, recognizing total gains on sale of \$68.5 million. Because we maintained varying forms of continuing involvement after the sale, either through continuing equity ownership interests or retained management agreements, or because the properties had insignificant operations prior to sale, these properties were not included in discontinued operations.

General and Administrative Expenses

General and administrative expenses increased from \$43.1 million in 2011 to \$46.4 million in 2012. The following table sets forth the factors that led to the increase in general and administrative expenses from 2011 to 2012 (in millions):

General and administrative expenses - 2011	\$	43.1
Reduction to overall pool of overhead costs (1)		(11.0)
Increased absorption of costs by wholly-owned development and leasing activities (2)		(14.7)
Reduced allocation of costs to Service Operations and Rental Operations (3)		29.0
General and administrative expenses - 2012	\$	46.4

(1) We reduced our total pool of overhead costs, through staff reductions and other measures, as the result of changes in our product mix and anticipated future levels of third-party construction, leasing, management and other operational activities.

(2) We increased our focus on development of wholly owned properties, and also significantly increased our leasing activity during 2012, which resulted in an increased absorption of overhead costs. We capitalized \$30.4 million and \$20.0 million of our total overhead costs to leasing and development, respectively, for consolidated properties during 2012, compared to capitalizing \$25.3 million and \$10.4 million of such costs, respectively, for 2011. Combined overhead costs capitalized to leasing and development totaled 31.1% and 20.6% of our overall pool of overhead costs for 2012 and 2011, respectively.

(3) The reduction in the allocation of overhead costs to Service Operations and Rental Operations resulted from reduced volumes of third-party construction projects as well as due to reducing our overall investment in office properties, which are more management intensive.

Interest Expense

Interest expense allocable to continuing operations increased from \$206.8 million in 2011 to \$230.0 million in 2012. We had \$61.0 million of interest expense allocated to discontinued operations in 2011, associated with the properties that were disposed of during 2011, compared to the allocation of only \$18.3 million of interest expense to discontinued operations for 2012. Total interest expense, combined for continuing and discontinued operations, decreased from \$267.8 million in 2011 to \$248.3 million in 2012. The reduction in total interest expense was primarily the result of a lower weighted average borrowing rate in 2012, due to refinancing some higher rate bonds in 2011 and 2012, as well as a slight decrease in our average level of borrowings compared to 2011. Also, due to an increase in properties under development from 2011, which met the criteria for capitalization of interest and were financed in part by common equity issuances during 2012, a \$5.0 million increase in capitalized interest also contributed to the decrease in total interest expense in 2012.

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 to determine if the joint venture is considered a variable interest entity (a "VIE") and would require consolidation. We (i) evaluate the sufficiency of the total equity at risk, (ii) review the voting rights and decision-making authority of the equity investment holders as a group and whether there are any guaranteed returns, protection against losses, or capping of residual returns within the group and (iii) establish whether activities within the venture are on behalf of an investor with disproportionately few voting rights in making this VIE determination. To the extent that we (i) are the sole entity that has the power to direct the activities of the VIE and (ii) have the obligation or rights to absorb the VIE's losses or receive its benefits, then we would be determined to be the primary beneficiary of the VIE and would consolidate it. At each reporting period, we re-assess our conclusions as to which, if any, party within the VIE is considered the primary beneficiary. To the extent that our joint ventures do not qualify as VIEs, we further assess each partner's substantive participating rights to determine if the venture should be consolidated.

We have equity interests in unconsolidated joint ventures that own and operate rental properties and hold land for development. To the extent applicable, we consolidate those joint ventures that are considered to be VIEs 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 entity 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 the 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 earnings of the joint venture. 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.

When circumstances indicate there may have been a reduction in the value of an equity investment, we evaluate whether the loss in value is other than temporary. If we conclude it is other than temporary we recognize an impairment charge to reflect the equity investment at fair value.

Cost Capitalization: Direct and certain indirect costs, including interest, clearly associated with 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. 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 Assets: We evaluate our real estate assets, with the exception of those that are classified as held-for-sale, for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If such an evaluation is considered necessary, we compare the carrying amount of that real estate asset, or asset group, with the expected undiscounted cash flows that are directly associated with, and that are expected to arise as a direct result of, the use and eventual disposition of that asset, or asset group. Our estimate of the expected future cash flows used in testing for impairment is based on, among other things, our estimates regarding future market conditions, rental rates, occupancy levels, costs of tenant improvements, leasing commissions and other tenant concessions, assumptions regarding the residual value of our properties at the end of our anticipated holding period and the length of our anticipated holding period and is, therefore, subjective by nature. These assumptions could differ materially from actual results. If our strategy changes or if market conditions otherwise dictate a reduction in the holding period and an earlier sale date, an impairment loss could be recognized and such loss could be material. To the extent the carrying amount of a real estate asset, or asset group, exceeds the associated estimate of undiscounted cash flows, an impairment loss is recorded to reduce the carrying value of the asset to its fair value.

The determination of the fair value of real estate assets is also highly subjective, especially in markets where there is a lack of recent comparable transactions. We primarily utilize the income approach to estimate the fair value of our income producing real estate assets. To the extent that the assumptions used in testing long-lived assets for impairment differ from those of a marketplace participant, the assumptions are modified in order to estimate the fair value of a real estate asset when an impairment charge is measured. In addition to determining future cash flows, which make the estimation of a real estate asset's undiscounted cash flows highly subjective, the selection of the discount rate and exit capitalization rate used in applying the income approach is also highly subjective.

To the extent applicable marketplace data is available, we generally use the market approach in estimating the fair value of undeveloped land that is determined to be impaired.

Real estate assets that are classified as held-for-sale are reported at the lower of their carrying value or their fair value, less estimated costs to sell.

Acquisition of Real Estate Property and Related Assets: We allocate the purchase price of acquired properties to tangible and identified intangible assets based on their respective fair values, using all pertinent information available at 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. This "as-if vacant" value is estimated using an income, or discounted cash flow, approach that relies upon internally determined assumptions that we believe are consistent with current market conditions for similar properties. The most important assumptions in determining the allocation of the purchase price to tangible assets are the exit capitalization rate, discount rate, estimated market rents, and hypothetical expected lease-up periods. The purchase price of real estate assets is also allocated to intangible assets consisting of the above or below market component of in-place leases and the value of in-place leases.

- 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 received pursuant to the lease over its remaining term and (ii) management's estimate of the amounts that would be received 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.
- Factors considered in determining the value allocable to in-place leases include estimates, during hypothetical expected lease-up periods, of space that is actually leased at the time of acquisition, of lost rent at market rates, fixed operating costs that will be recovered from tenants, and theoretical leasing commissions required to execute similar leases. These intangible assets are included in deferred leasing and other costs in the balance sheet and are amortized over the remaining term of the existing lease.

We record assets acquired in step acquisitions at their full fair value and record a gain or loss for the difference between the fair value and the carrying value of our existing equity interest. Additionally, contingencies arising from a business combination are recorded at fair value if the acquisition date fair value can be determined during the measurement period.

Valuation of Receivables: We are subject to tenant defaults and bankruptcies that could affect the collection of rent due under leases or of outstanding receivables. In order to mitigate these risks, we perform credit reviews and analyses on major existing tenants and prospective tenants before leases are executed. We have established the following procedures and policies to evaluate the collectability 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 current 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 recognized based upon our estimates of the percentage of completion of the construction contract. To the extent that a fixed-price contract is estimated to result in a loss, the loss is recorded immediately. 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 our critical accounting policies;
- Methodology in applying our critical accounting policies; and
- Impact of the critical accounting policies on our financial statements.

The Audit Committee has reviewed the critical accounting policies identified by management.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

We expect to meet our short-term liquidity requirements over the next 12 months, including payments of dividends and distributions as well as the capital expenditures needed to maintain our current real estate assets, primarily through working capital, net cash provided by operating activities and proceeds received from real estate dispositions. At December 31, 2013 we held \$19.3 million of cash and we had \$88.0 million of outstanding borrowings on the DRLP \$850.0 million unsecured line of credit.

In addition to our existing sources of liquidity, we expect to meet long-term liquidity requirements, such as scheduled mortgage and unsecured debt maturities, property acquisitions, financing of development activities and other capital improvements, through multiple sources of capital including operating cash flow, proceeds from property dispositions, term loans and through accessing the public debt and equity markets.

Rental Operations

Cash flows from Rental Operations is our primary source of liquidity and provides a stable source of cash flow to fund operational expenses. We believe that 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 a short time following, the actual revenue recognition.

We are subject to a number of risks related to general economic conditions, including reduced occupancy, tenant defaults and bankruptcies and potential reduction in rental rates upon renewal or re-letting of properties, any of which would result in reduced cash flow from operations.

Unsecured Debt and Equity Securities

Our unsecured line of credit at December 31, 2013 is described as follows (in thousands):

Description	Borrowing Capacity	Maturity Date	Outstanding Balance at December 31, 2013
Unsecured Line of Credit – DRLP	\$ 850,000	December 2015	\$ 88,000

The DRLP unsecured line of credit has a borrowing capacity of \$850.0 million with the interest rate on borrowings of LIBOR plus 1.25% (equal to 1.42% for borrowings at December 31, 2013) and a maturity date of December 2015. Subject to certain conditions, the terms also include an option to increase the facility by up to an additional \$400.0 million, for a total of up to \$1.25 billion. This line of credit provides us with an option to obtain borrowings from financial institutions that participate in the line at rates that may be lower than the stated interest rate, subject to certain restrictions.

This line of credit contains financial covenants that require us to meet certain financial ratios and defined levels of performance, including those related to fixed charge coverage, unsecured interest expense coverage and debt-to-asset value (with asset value being defined in the DRLP unsecured line of credit agreement). At December 31, 2013, we were in compliance with all covenants under this line of credit.

At December 31, 2013, 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 DRLP's debt securities (including guarantees thereof) and the Company's common shares, preferred shares and other securities. From time to time, we expect to issue additional securities under this automatic shelf registration statement to fund the repayment of long-term debt upon maturity and for other general corporate purposes.

We currently have an at the market equity program that allows us to issue new common shares from time to time, with an aggregate offering price of up to \$300.0 million. We entered into this at the market equity program on May 21, 2013, after fully utilizing our previous at the market equity program that we initiated in 2012. Throughout 2013, we issued approximately 4.8 million common shares under these programs, resulting in gross proceeds of approximately \$79.3 million. We paid approximately \$1.1 million

in commissions related to the sales of these common shares and, after deducting those commissions and other costs, generated net proceeds of approximately \$77.8 million from the offerings. We have a capacity of \$248.6 million remaining under our current at the market equity program.

In January 2013, we completed a public offering of 41.4 million common shares at an issue price of \$14.25 per share, resulting in gross proceeds of \$590.0 million and, after deducting underwriting fees and estimated offering costs, net proceeds of approximately \$571.9 million.

The indentures (and related supplemental indentures) governing our outstanding series of notes also require us to comply with financial ratios and other covenants regarding our operations. We were in compliance with all such covenants at December 31, 2013.

Sale of Real Estate Assets

We regularly work to identify, consider and pursue opportunities to dispose of non-strategic properties on an opportunistic basis and on a basis that is generally consistent with our strategic plans. Our ability to dispose of such properties on favorable terms, or at all, is dependent upon a number of factors including the availability of credit to potential buyers to purchase properties at prices that we consider acceptable. Although we believe that we have demonstrated our ability to generate significant liquidity through the disposition of non-strategic properties, potential future adverse changes to general market and economic conditions could negatively impact our further ability to dispose of such properties. Sales of land and depreciated property provided \$740.0 million in net proceeds in 2013, compared to \$138.1 million in 2012 and \$1.6 billion in 2011.

Transactions with Unconsolidated Entities

Transactions with unconsolidated partnerships and joint ventures also provide a source of liquidity. From time to time we will sell properties to unconsolidated entities, while retaining a continuing interest in that entity, and receive proceeds commensurate to those interests that we do not own. Additionally, unconsolidated entities will from time to time obtain debt financing or sell properties and will then distribute to us, and our joint venture partners, all or a portion of the proceeds from such transactions. During 2013, we received sale and financing distributions of \$109.2 million.

Uses of Liquidity

Our principal uses of liquidity include the following:

- property investment;
- leasing/capital costs;
- dividends and distributions to shareholders and unitholders;
- long-term debt maturities;
- opportunistic repurchases of outstanding debt and preferred stock; and
- other contractual obligations.

Property Investment

We continue to pursue an asset repositioning strategy that involves increasing our investment concentration in industrial properties while reducing our investment concentration in suburban office properties in certain markets. Pursuant to this strategy, we evaluate development and acquisition opportunities based upon our market outlook, including general economic conditions, supply and long-term growth potential. Our ability to make future property investments, along with being dependent upon identifying suitable acquisition and development opportunities, is also dependent upon our continued access to our longer-term sources of liquidity, including issuances of debt or equity securities as well as generating cash flow by disposing of selected properties.

Leasing/Capital Costs

Tenant improvements and lease-related costs pertaining to our initial leasing of newly completed space, or vacant space in acquired properties, are referred to as first generation expenditures. Such first generation expenditures for tenant improvements are included within "development of real estate investments" in our Consolidated Statements of Cash Flows, while such expenditures for lease-related costs are included within "other deferred leasing costs."

Cash expenditures related to the construction of a building's shell, as well as the associated site improvements, are also included within "development of real estate investments" in our Consolidated Statements of Cash Flows.

Tenant improvements and leasing costs to re-let rental space that we previously leased to tenants are referred to as second generation expenditures. Building improvements that are not specific to any tenant but serve to improve integral components of our real estate properties are also second generation expenditures.

One of our principal uses of our liquidity is to fund the second generation leasing/capital expenditures of our real estate investments. The following table summarizes our second generation capital expenditures by type of expenditure (in thousands):

	2013	2012	2011
Second generation tenant improvements	\$ 39,892	\$ 26,643	\$ 50,079
Second generation leasing costs	38,617	31,059	38,130
Building improvements	13,289	6,182	11,055
Total second generation capital expenditures	\$ 91,798	\$ 63,884	\$ 99,264
Development of real estate investments	\$ 427,355	\$ 264,755	\$ 162,070
Other deferred leasing costs	\$ 35,376	\$ 27,772	\$ 26,311

Second generation tenant improvements and leasing costs increased due to a shift in industrial leasing volume from renewal leases to second generation leases (see data in the Key Performance Indicators section of Management's Discussion and Analysis of Financial Condition and Results of Operations), which are generally more capital intensive. Additionally, although the overall renewal volume was lower, renewals for office leases, which are generally more capital intensive than industrial leases, increased from 2012.

During 2013, we increased our investment across all product types in non-tenant specific building improvements.

The increase in capital expenditures for the development of real estate investments was the result of our increased focus on wholly owned development projects. We had wholly owned properties under development with an expected cost of \$572.6 million at December 31, 2013, compared to projects with an expected cost of \$468.8 million and \$124.2 million at December 31, 2012 and 2011, respectively. Cash outflows for real estate development investments were \$427.4 million, \$264.8 million and \$162.1 million for December 31, 2013, 2012 and 2011, respectively.

We capitalized \$31.3 million, \$30.4 million and \$25.3 million of overhead costs related to leasing activities, including both first and second generation leases, during the years ended December 31, 2013, 2012 and 2011, respectively. We capitalized \$27.1 million, \$20.0 million and \$10.4 million of overhead costs related to development activities, including construction, development and tenant improvement projects on first and second generation space, during the years ended December 31, 2013, 2012 and 2011, respectively. Combined overhead costs capitalized to leasing and development totaled 35.7%, 31.1% and 20.6% of our overall pool of overhead costs at December 31, 2013, 2012 and 2011, respectively. Further discussion of the capitalization of overhead costs can be found herein, in the discussion of general and administrative expenses in the comparison sections of Management's Discussion and Analysis of Financial Condition and Results of Operations.

In addition to the capitalization of overhead costs discussed above, we also capitalized \$16.8 million, \$9.4 million and \$4.3 million of interest costs in the years ended December 31, 2013, 2012 and 2011, respectively.

The following table summarizes our second generation capital expenditures by reportable operating segment (in thousands):

	2013	2012	2011
Industrial	\$ 41,971	\$ 33,095	\$ 34,872
Office	46,600	30,092	63,933
Medical Office	3,106	641	410
Non-reportable Rental Operations segments	121	56	49
Total	\$ 91,798	\$ 63,884	\$ 99,264

Both our first and second generation expenditures vary significantly between leases on a per square foot basis, dependent upon several factors including the product type, the nature of a tenant's operations, the specific physical characteristics of each individual property as well as the market in which the property is located. Second generation expenditures related to the 79 suburban office buildings that were sold in the Blackstone Office Disposition totaled \$26.2 million in 2011.

Dividends and Distributions

We are required to meet the distribution requirements of the Internal Revenue Code of 1986, as amended (the "Code"), in order to maintain our REIT status. We paid dividends of \$0.68 per common share for each of the years ended December 31, 2013, 2012 and 2011. We expect to continue to distribute at least an amount equal to our taxable earnings, to meet the requirements to maintain our REIT status, and additional amounts as determined by our board of directors. 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.

At December 31, 2013 we had three series of preferred stock outstanding. The annual dividend rates on our preferred shares range between 6.5% and 6.625% and are paid quarterly in arrears. In February 2013, we redeemed all of our outstanding Series O Shares for a total payment of \$178.0 million, thus reducing our future quarterly dividend commitments by \$3.7 million.

In March 2012, we redeemed all of our 6.950% Series M Cumulative Redeemable Preferred Shares ("Series M Shares") for a total payment of \$168.3 million, thus reducing our future quarterly dividend commitments by \$2.9 million.

In July 2011, we redeemed all of our 7.25% Series N Cumulative Redeemable Preferred Shares ("Series N Shares") for a total payment of \$108.6 million, thus reducing our future quarterly dividend commitments by \$2.0 million.

Debt Maturities

Debt outstanding at December 31, 2013 had a face value totaling \$4.3 billion with a weighted average interest rate of 5.49% and with maturity dates ranging between 2014 and 2028. Of this total amount, we had \$3.1 billion of unsecured debt, \$1.1 billion of secured debt and \$88.0 million outstanding on the DRLP unsecured line of credit at December 31, 2013. We made scheduled and unscheduled principal payments of \$1.0 billion on outstanding debt during the year ended December 31, 2013.

The following table is a summary of the scheduled future amortization and maturities of our indebtedness at December 31, 2013 (in thousands, except percentage data):

Year	Future Repayments			Weighted Average Interest Rate of Future Repayments
	Scheduled Amortization	Maturities	Total	
2014	\$ 16,554	\$ 67,506	\$ 84,060	5.99%
2015	14,658	531,346	546,004	5.68%
2016	12,307	518,132	530,439	6.14%
2017	10,139	558,129	568,268	5.89%
2018	7,937	550,000	557,937	4.04%
2019	6,936	518,438	525,374	7.97%
2020	5,381	250,000	255,381	6.73%
2021	3,416	259,047	262,463	3.99%
2022	3,611	600,000	603,611	4.20%
2023	3,817	250,000	253,817	3.75%
2024	4,036	—	4,036	5.63%
Thereafter	6,325	50,000	56,325	7.12%
	<u>\$ 95,117</u>	<u>\$ 4,152,598</u>	<u>\$ 4,247,715</u>	5.49%

We anticipate generating capital to fund our debt maturities by using undistributed cash generated from our Rental Operations and property dispositions and by raising additional capital from future debt or equity transactions.

Repurchases of Outstanding Debt and Preferred Stock

We paid \$178.0 million in February 2013 to redeem our Series O Shares at par value.

During 2013, we redeemed \$250.0 million in unsecured notes that had a scheduled maturity in August of 2014. We recognized a net loss on the extinguishment of these notes, totaling \$9.4 million, which was comprised of a make-whole payment to the bondholders of \$8.1 million as well as the write-off of unamortized deferred financing costs.

To the extent that it supports our overall capital strategy, we may purchase certain of our outstanding unsecured debt prior to its stated maturity or we may redeem or repurchase certain of our outstanding series of preferred stock.

Guarantee Obligations

We are subject to various guarantee obligations in the normal course of business and, in most cases, do not anticipate these obligations to result in significant cash payments.

HISTORICAL CASH FLOWS

Cash and cash equivalents were \$19.3 million, \$33.9 million and \$213.8 million at December 31, 2013, 2012, and 2011 respectively. The following table highlights significant changes in net cash associated with our operating, investing and financing activities (in thousands):

	Years Ended December 31,		
	2013	2012	2011
Net Cash Provided by Operating Activities	\$ 435,676	\$ 299,157	\$ 337,537
Net Cash Provided by (Used for) Investing Activities	(319,382)	(967,616)	750,935
Net Cash Provided by (Used for) Financing Activities	(130,908)	488,539	(893,047)

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.

The increase in cash flows from operations from 2012 to 2013, noted in the table above, was primarily due to carrying a higher overall base of properties throughout 2013, which resulted in an increase in rental revenues from continuing operations. Also contributing to the increase is timing of cash payments and receipts on third-party construction contracts.

The decrease in cash flows from operations from 2011 to 2012, noted in the table above, was primarily due to the overall reduction in rental revenues from discontinued operations, which was driven by the disposition of a significant portion of our office properties in December 2011. This overall change in product mix correspondingly drove a \$35.4 million decrease in cash outflows for second generation capital expenditures (classified within investing activities) during 2012.

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 for investing activities are as follows:

- Real estate development costs totaled \$427.4 million for the year ended December 31, 2013, compared to \$264.8 million and \$162.1 million for the years ended December 31, 2012 and 2011, respectively. We increased our development activities in 2013 and 2012 across all product types.
- During 2013, we paid cash of \$445.5 million for real estate acquisitions, compared to \$665.5 million in 2012 and \$544.8 million in 2011. In addition, we paid cash of \$76.7 million for undeveloped land acquisitions in 2013, compared to \$64.9 million in 2012 and \$14.1 million in 2011. The increase in land acquisitions in 2013 and 2012 is partially the result of land acquired for specific development projects that commenced shortly after acquisition.
- Sales of land and depreciated property provided \$740.0 million in net proceeds in 2013, compared to \$138.1 million in 2012 and \$1.6 billion in 2011.
- We received capital distributions from unconsolidated companies (as a result of the sale of properties or refinancing) of \$109.2 million in 2013, \$5.2 million in 2012 and \$59.3 million in 2011.

Financing Activities

The following items highlight significant capital transactions:

- Throughout 2013, we issued 46.2 million shares of common stock for net proceeds of \$649.7 million, compared to 22.7 million shares of common stock in 2012 for net proceeds of \$315.3 million. We had no common stock issuances in 2011.
- In February 2013, we redeemed all of our outstanding shares Series O Shares for a total payment of \$178.0 million. In March 2012, we redeemed all of our outstanding Series M Shares for a total payment of \$168.3 million. In July 2011, we redeemed all of our outstanding Series N Shares for a total payment of \$108.6 million.
- In December 2013, we issued \$250.0 million of unsecured notes that bear interest at 3.875% and mature on February 15, 2021. In March 2013, we issued \$250.0 million of senior unsecured notes that bear interest at 3.625% and mature on April 15, 2023. In September 2012, we issued \$300.0 million of senior unsecured notes that bear interest at 3.875% and mature on October 15, 2022. In June 2012, we issued \$300.0 million of senior unsecured notes that bear interest at 4.375% and mature on June 15, 2022. We had no senior unsecured note issuances in 2011.
- In May 2013, we issued and fully drew down on a term loan with an aggregate commitment of \$250.0 million that bears interest at a variable rate of LIBOR plus 1.35% and matures May 14, 2018.
- During 2013, we repaid three unsecured notes with a weighted average effective rate of 6.37% totaling \$675.0 million. In October 2012, we repaid \$50.0 million of medium term notes, which had an effective interest rate of 5.45%, at their scheduled maturity date. In August 2012, we repaid \$150.0 million of senior unsecured notes, which had an effective interest rate of 6.01%, at their scheduled maturity date. In July 2012, one of our consolidated subsidiaries repaid \$21.0 million of variable rate unsecured debt, which bore interest at a rate of LIBOR plus 0.85%, at

its scheduled maturity. In December 2011, we repaid the remaining \$167.6 million of our 3.75% Exchangeable Notes, which had an effective interest rate of 5.62%, at their scheduled maturity date. During 2011, we also repaid \$165.0 million of unsecured notes, which had a weighted average effective rate of 6.02%.

- Throughout the year ended December 31, 2013, we repaid twelve secured loans totaling \$153.8 million, which had a weighted average stated interest rate of 5.52%. During 2012, we repaid five secured loans totaling \$102.1 million, which had a weighted average stated interest rate of 6.08%. In 2011, we repaid four individually insignificant secured loans totaling \$12.8 million.
- We decreased net borrowings on the DRLP \$850.0 million line of credit by \$197.0 million and increased it by \$285.0 million, respectively, for the years ended December 31, 2013 and 2012, compared to a decrease of \$175.0 million in 2011.
- Changes in book drafts are classified as financing activities within our consolidated Statements of Cash Flows. Book overdrafts were \$12.4 million at December 31, 2013, compared to \$45.3 million at December 31, 2012. We had no book overdrafts at December 31, 2011.
- In June 2012, a newly formed consolidated subsidiary borrowed \$13.3 million on a secured note bearing interest at a variable rate of LIBOR plus 2.5% and maturing in June 2017.
- We paid cash dividends of \$0.68 per common share in each of the years ended December 31, 2013, 2012 and 2011.

IMPACT OF CHANGES IN CREDIT RATINGS ON OUR LIQUIDITY

We are currently assigned investment grade corporate credit ratings on our senior unsecured notes from Moody's Investors Service and Standard & Poor's Ratings Group. Our senior unsecured notes have been assigned a rating of Baa2 by Moody's Investors Service. In addition, our senior unsecured notes have been assigned a rating of BBB by Standard & Poor's Ratings Group, an upgrade from BBB- announced by Standard & Poor's on January 31, 2014.

Our preferred shares carry ratings of BB+ and Baa3 from Standard and Poor's Ratings Group and Moody's Investors Service, respectively. The BB+ rating from Standard and Poor's represents an upgrade from BB announced on January 31, 2014.

The ratings of our senior unsecured notes and preferred shares could change based upon, among other things, the impact that prevailing economic conditions may have on our results of operations and financial condition. If our credit ratings are downgraded or other negative action is taken, we could be required, among other things, to pay additional interest and fees on outstanding borrowings under our revolving credit agreement. Credit rating reductions by one or more rating agencies could also adversely affect our access to funding sources, the cost and other terms of obtaining funding as well as our overall financial condition, operating results and cash flow.

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.

OFF BALANCE SHEET ARRANGEMENTS

Investments in Unconsolidated Companies

We have equity interests in unconsolidated partnerships and limited liability companies that primarily own and operate rental properties and hold land for development. These unconsolidated joint ventures are primarily engaged in the operations and development of industrial, office and medical office real estate properties. 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 entities are not included on our balance sheet.

Our investments in and advances to unconsolidated subsidiaries represents approximately 4% and 5% of our total assets as of December 31, 2013 and 2012, respectively. We believe that 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, 2013 and 2012, respectively (in thousands, except percentage data):

	Joint Ventures	
	2013	2012
Land, buildings and tenant improvements, net	\$ 1,656,231	\$ 1,991,823
Construction in progress	12,338	61,663
Undeveloped land	126,556	175,143
Other assets	206,414	289,173
	\$ 2,001,539	\$ 2,517,802
Indebtedness	\$ 890,513	\$ 1,314,502
Other liabilities	93,291	70,519
	983,804	1,385,021
Owners' equity	1,017,735	1,132,781
	\$ 2,001,539	\$ 2,517,802
Rental revenue	\$ 240,064	\$ 291,534
Gain on sale of properties	\$ 121,404	\$ 6,792
Net income	\$ 116,832	\$ 3,125
Total square feet	24,276	26,487
Percent leased*	95.20 %	92.15 %

*Represents the percentage of total square feet leased based on executed leases and without regard to whether the leases have commenced.

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, 2013, we were subject to certain contractual payment obligations as described in the following table:

	Payments due by Period (in thousands)						
Contractual Obligations	Total	2014	2015	2016	2017	2018	Thereafter
Long-term debt (1)	\$ 5,302,904	\$ 309,325	\$ 669,184	\$ 718,319	\$ 717,136	\$ 676,954	\$ 2,211,986
Line of credit (2)	94,664	3,422	91,242	—	—	—	—
Share of unconsolidated joint ventures' debt (3)	350,542	95,602	74,673	41,848	104,256	2,571	31,592
Ground leases	215,406	3,816	3,964	4,010	4,027	4,055	195,534
Development and construction backlog costs (4)	377,407	361,531	7,938	7,938	—	—	—
Other	18,482	3,893	3,936	3,711	2,916	2,778	1,248
Total Contractual Obligations	\$ 6,359,405	\$ 777,589	\$ 850,937	\$ 775,826	\$ 828,335	\$ 686,358	\$ 2,440,360

- (1) Our long-term debt consists of both secured and unsecured debt and includes both principal and interest. Interest payments for variable rate debt were calculated using the interest rates as of December 31, 2013.
- (2) Our unsecured line of credit consists of an operating line of credit that matures December 2015. Interest payments for our unsecured line of credit were calculated using the most recent stated interest rate that was in effect.
- (3) Our share of unconsolidated joint venture debt includes both principal and interest. Interest expense for variable rate debt was calculated using the interest rate at December 31, 2013.
- (4) Represents estimated remaining costs on the completion of owned development projects and third-party construction projects.

RELATED PARTY TRANSACTIONS

We provide property and asset management, leasing, construction and other tenant-related services to unconsolidated companies in which we have equity interests. For the years ended December 31, 2013, 2012 and 2011, respectively, we earned management fees of \$9.0 million, \$11.0 million and \$10.1 million, leasing fees of \$2.3 million, \$3.4 million and \$4.4 million and construction and development fees of \$5.1 million, \$4.7 million and \$6.7 million from these companies, prior to elimination. We recorded these fees based on contractual terms that approximate market rates for these types of services and have eliminated our ownership percentages of these fees in the consolidated financial statements.

COMMITMENTS AND CONTINGENCIES

We have guaranteed the repayment of \$76.2 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 four of our unconsolidated subsidiaries. At December 31, 2013, the maximum guarantee exposure for these loans was approximately \$188.4 million.

We lease certain land positions with terms extending to October 2105, with a total future payment obligation of \$215.4 million. No payments on these ground leases, which are classified as operating leases, are material in any individual year.

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.

We own certain parcels of land that are subject to special property tax assessments levied by quasi municipal entities. To the extent that such special assessments are fixed and determinable, the discounted value of the full assessment is recorded as a liability. We have \$12.4 million of such special assessment liabilities, which are included within other liabilities on our consolidated balance sheet as of December 31, 2013.

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 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. We do not enter into derivative or interest rate transactions for speculative purposes. We have two outstanding swaps, which fix the rates on two of our variable rate loans and are not significant to our financial statements at December 31, 2013.

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 (in thousands) and other terms required to evaluate the expected cash flows and sensitivity to interest rate changes.

	2014	2015	2016	2017	2018	Thereafter	Total	Fair Value
Fixed rate secured debt	\$ 80,605	\$ 205,036	\$ 377,314	\$ 102,016	\$ 4,952	\$ 304,450	\$1,074,373	\$1,145,717
Weighted average interest rate	6.06%	5.30%	5.91%	5.96%	6.49%	7.45%		
Variable rate secured debt	\$ 1,363	\$ 742	\$ 755	\$ 13,729	\$ 300	\$ 2,200	\$ 19,089	\$ 19,089
Weighted average interest rate	1.22%	2.12%	2.15%	3.41%	0.19%	0.19%		
Fixed rate unsecured debt	\$ 2,092	\$ 252,226	\$ 152,370	\$ 452,523	\$ 302,685	\$1,654,357	\$2,816,253	\$3,000,518
Weighted average interest rate	6.26%	7.49%	6.71%	5.95%	6.08%	5.20%		
Variable rate unsecured notes	\$ —	\$ —	\$ —	\$ —	\$ 250,000	\$ —	\$ 250,000	\$ 250,000
Rate at December 31, 2013	N/A	N/A	N/A	N/A	1.52%	N/A		
Unsecured line of credit	\$ —	\$ 88,000	\$ —	\$ —	\$ —	\$ —	\$ 88,000	\$ 88,383
Rate at December 31, 2013	N/A	1.42%	N/A	N/A	N/A	N/A		

As the table incorporates only those exposures that existed at December 31, 2013, it does not consider those exposures or positions that could arise after that date. As a result, the ultimate impact of interest rate fluctuations will depend on future exposures that arise, our hedging strategies at that time to the extent we are party to interest rate derivatives, and interest rates. Interest expense on our unsecured line of credit and our variable rate unsecured notes will be affected by fluctuations in LIBOR indices as well as changes in our credit rating. The interest rate at such point in the future as we may renew, extend or replace our unsecured line of credit will be heavily dependent upon the state of the credit environment.

At December 31, 2013, the face value of our unsecured debt was \$3.1 billion and we estimated the fair value of that unsecured debt to be \$3.3 billion. At December 31, 2012, the face value of our unsecured debt was \$3.0 billion and our estimate of the fair value of that debt was \$3.3 billion.

MANAGEMENT'S REPORT ON INTERNAL CONTROL

We, as management of Duke Realty Corporation and its subsidiaries ("Duke Realty"), 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 accounting principles generally accepted in the United States of America and includes those policies and procedures 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, 2013 based on the control criteria established in a report entitled Internal Control – Integrated Framework (1992), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, we have concluded that, as of December 31, 2013, 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 Realty's consolidated financial statements, has also issued an audit report on Duke Realty's internal control over financial reporting.



Dennis D. Oklak
Chairman and Chief Executive Officer



Mark A. Denien
Executive Vice President and Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders and Directors of
Duke Realty Corporation:

We have audited the accompanying consolidated balance sheets of Duke Realty Corporation and Subsidiaries (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of operations and comprehensive income, cash flows, and changes in equity for each of the years in the three-year period ended December 31, 2013. We also have audited the Company's internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* 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, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, 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, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

KPMG LLP

Indianapolis, Indiana
February 21, 2014

DUKE REALTY CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
As of December 31,
(in thousands, except per share amounts)

	2013	2012
<u>ASSETS</u>		
Real estate investments:		
Land and improvements	\$ 1,438,007	\$ 1,284,081
Buildings and tenant improvements	5,531,726	5,398,886
Construction in progress	256,895	234,918
Investments in and advances to unconsolidated companies	342,947	372,256
Undeveloped land	590,052	614,208
	<u>8,159,627</u>	<u>7,904,349</u>
Accumulated depreciation	(1,368,406)	(1,296,396)
Net real estate investments	<u>6,791,221</u>	<u>6,607,953</u>
Real estate investments and other assets held-for-sale	57,466	30,937
Cash and cash equivalents	19,275	33,889
Accounts receivable, net of allowance of \$1,576 and \$3,374	26,173	22,283
Straight-line rent receivable, net of allowance of \$9,350 and \$6,091	118,251	120,303
Receivables on construction contracts, including retentions	19,209	39,754
Deferred financing costs, net of accumulated amortization of \$37,016 and \$48,218	36,250	40,083
Deferred leasing and other costs, net of accumulated amortization of \$394,049 and \$372,047	466,979	497,827
Escrow deposits and other assets	217,790	167,072
	<u>\$ 7,752,614</u>	<u>\$ 7,560,101</u>
<u>LIABILITIES AND EQUITY</u>		
Indebtedness:		
Secured debt	\$ 1,100,124	\$ 1,167,953
Unsecured debt	3,066,252	2,993,217
Unsecured line of credit	88,000	285,000
	<u>4,254,376</u>	<u>4,446,170</u>
Liabilities related to real estate investments held-for-sale	2,075	807
Construction payables and amounts due subcontractors, including retentions	69,380	84,679
Accrued real estate taxes	74,696	74,565
Accrued interest	52,824	59,215
Other accrued expenses	67,495	104,719
Other liabilities	142,589	121,097
Tenant security deposits and prepaid rents	44,550	42,731
Total liabilities	<u>4,707,985</u>	<u>4,933,983</u>
Shareholders' equity:		
Preferred shares (\$.01 par value); 5,000 shares authorized; 1,791 and 2,503 shares issued and outstanding	447,683	625,638
Common shares (\$.01 par value); 400,000 shares authorized; 326,399 and 279,423 shares issued and outstanding	3,264	2,794
Additional paid-in capital	4,620,964	3,953,497
Accumulated other comprehensive income	4,119	2,691
Distributions in excess of net income	(2,062,787)	(1,993,206)
Total shareholders' equity	<u>3,013,243</u>	<u>2,591,414</u>
Noncontrolling interests	31,386	34,704
Total equity	<u>3,044,629</u>	<u>2,626,118</u>
	<u>\$ 7,752,614</u>	<u>\$ 7,560,101</u>

See accompanying Notes to Consolidated Financial Statements.

DUKE REALTY CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations and Comprehensive Income
For the Years Ended December 31,
(in thousands, except per share amounts)

	2013	2012	2011
Revenues:			
Rental and related revenue	\$ 875,194	\$ 771,625	\$ 686,242
General contractor and service fee revenue	206,596	275,071	521,796
	<u>1,081,790</u>	<u>1,046,696</u>	<u>1,208,038</u>
Expenses:			
Rental expenses	159,008	137,797	129,717
Real estate taxes	117,747	106,128	95,666
General contractor and other services expenses	183,833	254,870	480,480
Depreciation and amortization	393,450	349,015	305,070
	<u>854,038</u>	<u>847,810</u>	<u>1,010,933</u>
Other operating activities:			
Equity in earnings of unconsolidated companies	54,116	4,674	4,565
Gain on sale of properties	59,179	344	68,549
Gain on land sales	9,547	—	—
Undeveloped land carrying costs	(8,614)	(8,829)	(8,934)
Impairment charges	(3,777)	—	(12,931)
Other operating income (expenses)	470	(633)	(1,237)
General and administrative expenses	(42,673)	(46,424)	(43,107)
	<u>68,248</u>	<u>(50,868)</u>	<u>6,905</u>
Operating income	<u>296,000</u>	<u>148,018</u>	<u>204,010</u>
Other income (expenses):			
Interest and other income, net	1,887	514	658
Interest expense	(228,895)	(229,992)	(206,770)
Loss on debt extinguishment	(9,433)	—	—
Acquisition-related activity	(3,093)	(4,192)	(1,188)
Income (loss) from continuing operations before income taxes	<u>56,466</u>	<u>(85,652)</u>	<u>(3,290)</u>
Income tax benefit	5,080	103	194
Income (loss) from continuing operations	<u>61,546</u>	<u>(85,549)</u>	<u>(3,096)</u>
Discontinued operations:			
Income (loss) before gain on sales	1,761	(3,786)	(1,477)
Gain on sale of depreciable properties	133,242	13,467	100,882
Income from discontinued operations	<u>135,003</u>	<u>9,681</u>	<u>99,405</u>
Net income (loss)	<u>196,549</u>	<u>(75,868)</u>	<u>96,309</u>
Dividends on preferred shares	(31,616)	(46,438)	(60,353)
Adjustments for redemption/repurchase of preferred shares	(5,932)	(5,730)	(3,796)
Net (income) loss attributable to noncontrolling interests	(5,957)	1,891	(744)
Net income (loss) attributable to common shareholders	<u>\$ 153,044</u>	<u>\$ (126,145)</u>	<u>\$ 31,416</u>
Basic net income (loss) per common share:			
Continuing operations attributable to common shareholders	\$ 0.06	\$ (0.52)	\$ (0.27)
Discontinued operations attributable to common shareholders	0.41	0.04	0.38
Total	<u>\$ 0.47</u>	<u>\$ (0.48)</u>	<u>\$ 0.11</u>
Diluted net income (loss) per common share:			
Continuing operations attributable to common shareholders	\$ 0.06	\$ (0.52)	\$ (0.27)
Discontinued operations attributable to common shareholders	0.41	0.04	0.38
Total	<u>\$ 0.47</u>	<u>\$ (0.48)</u>	<u>\$ 0.11</u>
Weighted average number of common shares outstanding	<u>322,133</u>	<u>267,900</u>	<u>252,694</u>
Weighted average number of common shares and potential dilutive securities	<u>326,712</u>	<u>267,900</u>	<u>259,598</u>
Comprehensive income (loss):			
Net income (loss)	\$ 196,549	\$ (75,868)	\$ 96,309
Other comprehensive income (loss):			
Amortization of interest contracts	451	1,829	1,829
Other	977	(125)	590
Total other comprehensive income	<u>1,428</u>	<u>1,704</u>	<u>2,419</u>
Comprehensive income (loss)	<u>\$ 197,977</u>	<u>\$ (74,164)</u>	<u>\$ 98,728</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)

	2013	2012	2011
Cash flows from operating activities:			
Net income (loss)	\$ 196,549	\$ (75,868)	\$ 96,309
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation of buildings and tenant improvements	288,583	262,825	267,222
Amortization of deferred leasing and other costs	120,467	116,594	118,457
Amortization of deferred financing costs	12,968	13,321	14,530
Straight-line rent adjustment	(14,633)	(19,546)	(23,877)
Impairment charges	3,777	—	12,931
Loss on debt extinguishment	9,433	—	—
Gain on acquisitions	(962)	—	(1,057)
Gains on land and depreciated property sales	(201,968)	(13,811)	(169,431)
Third-party construction contracts, net	31,920	(10,837)	(17,352)
Other accrued revenues and expenses, net	21,706	13,300	24,001
Operating distributions received in excess of (less than) equity in earnings from unconsolidated companies	(32,164)	13,179	15,804
Net cash provided by operating activities	435,676	299,157	337,537
Cash flows from investing activities:			
Development of real estate investments	(427,355)	(264,755)	(162,070)
Acquisition of real estate investments and related intangible assets	(445,514)	(665,527)	(544,816)
Acquisition of undeveloped land	(76,655)	(64,944)	(14,090)
Second generation tenant improvements, leasing costs and building improvements	(91,798)	(63,884)	(99,264)
Other deferred leasing costs	(35,376)	(27,772)	(26,311)
Other assets	(30,161)	4,504	747
Proceeds from land and depreciated property sales, net	740,039	138,118	1,572,093
Capital distributions from unconsolidated companies	109,158	5,157	59,252
Capital contributions and advances to unconsolidated companies	(61,720)	(28,513)	(34,606)
Net cash provided by (used for) investing activities	(319,382)	(967,616)	750,935
Cash flows from financing activities:			
Proceeds from issuance of common shares, net	649,690	315,295	—
Payments for redemption/repurchase of preferred shares	(177,955)	(168,272)	(110,726)
Proceeds from unsecured debt	750,000	600,000	—
Payments on unsecured debt	(685,022)	(222,846)	(334,432)
Proceeds from secured debt financings	1,933	13,336	—
Payments on secured indebtedness including principal amortization	(169,188)	(117,287)	(29,025)
Borrowings (payments) on lines of credit, net	(197,000)	264,707	(172,753)
Distributions to common shareholders	(220,297)	(181,892)	(171,814)
Distributions to preferred shareholders	(31,616)	(46,438)	(60,353)
Contributions from (distributions to) noncontrolling interests, net	(8,944)	2,179	(5,292)
Buyout of noncontrolling interests	—	(6,208)	—
Change in book overdrafts	(32,823)	45,272	—
Deferred financing costs	(9,686)	(9,307)	(8,652)
Net cash provided by (used for) financing activities	(130,908)	488,539	(893,047)
Net increase (decrease) in cash and cash equivalents	(14,614)	(179,920)	195,425
Cash and cash equivalents at beginning of year	33,889	213,809	18,384
Cash and cash equivalents at end of year	\$ 19,275	\$ 33,889	\$ 213,809
Non-cash investing and financing activities:			
Assumption of indebtedness and other liabilities in real estate acquisitions	\$ 107,992	\$ 112,754	\$ 177,082
Carrying amount of pre-existing ownership interest in acquired property	\$ 3,968	\$ —	\$ 5,987
Contribution of properties to, net of debt assumed by, unconsolidated companies	\$ 2,426	\$ —	\$ 53,293
Assumption of indebtedness by buyer in real estate dispositions	\$ —	\$ —	\$ 24,914
Conversion of Limited Partner Units to common shares	\$ 331	\$ 29,213	\$ 3,130
Issuance of Limited Partner Units for acquisition	\$ —	\$ —	\$ 28,357

See accompanying Notes to Consolidated Financial Statements.

DUKE REALTY CORPORATION AND SUBSIDIARIES
Consolidated Statements of Changes in Equity
(in thousands, except per share data)

	Common Shareholders						
	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Net Income	Non-Controlling Interests	Total
Balance at December 31, 2010	\$ 904,540	\$ 2,522	\$ 3,573,720	\$ (1,432)	\$ (1,533,740)	\$ 44,293	\$ 2,989,903
Net income	—	—	—	—	95,565	744	96,309
Other comprehensive income	—	—	—	2,419	—	—	2,419
Issuance of Limited Partner Units for acquisition	—	—	—	—	—	28,357	28,357
Stock-based compensation plan activity	—	4	14,041	—	(3,190)	—	10,855
Conversion of Limited Partner Units	—	3	3,127	—	—	(3,130)	—
Distributions to preferred shareholders	—	—	—	—	(60,353)	—	(60,353)
Redemption/repurchase of preferred shares	(110,630)	—	3,700	—	(3,796)	—	(110,726)
Distributions to common shareholders (\$0.68 per share)	—	—	—	—	(171,814)	—	(171,814)
Distributions to noncontrolling interests	—	—	—	—	—	(5,292)	(5,292)
Balance at December 31, 2011	\$ 793,910	\$ 2,529	\$ 3,594,588	\$ 987	\$ (1,677,328)	\$ 64,972	\$ 2,779,658
Net loss	—	—	—	—	(73,977)	(1,891)	(75,868)
Other comprehensive income	—	—	—	1,704	—	—	1,704
Issuance of common shares	—	227	314,596	—	—	—	314,823
Stock-based compensation plan activity	—	13	9,395	—	(2,976)	—	6,432
Conversion of Limited Partner Units	—	25	29,188	—	—	(29,213)	—
Distributions to preferred shareholders	—	—	—	—	(46,438)	—	(46,438)
Redemption of preferred shares	(168,272)	—	5,730	—	(5,730)	—	(168,272)
Distributions to common shareholders (\$0.68 per share)	—	—	—	—	(181,892)	—	(181,892)
Contributions from noncontrolling interests, net	—	—	—	—	—	2,179	2,179
Buyout of noncontrolling interests	—	—	—	—	(4,865)	(1,343)	(6,208)
Balance at December 31, 2012	\$ 625,638	\$ 2,794	\$ 3,953,497	\$ 2,691	\$ (1,993,206)	\$ 34,704	\$ 2,626,118
Net income	—	—	—	—	190,592	5,957	196,549
Other comprehensive income	—	—	—	1,428	—	—	1,428
Issuance of common shares	—	462	649,228	—	—	—	649,690
Stock-based compensation plan activity	—	8	11,976	—	(2,328)	—	9,656
Conversion of Limited Partner Units	—	—	331	—	—	(331)	—
Distributions to preferred shareholders	—	—	—	—	(31,616)	—	(31,616)
Redemption of preferred shares	(177,955)	—	5,932	—	(5,932)	—	(177,955)
Distributions to common shareholders (\$0.68 per share)	—	—	—	—	(220,297)	—	(220,297)
Distributions to noncontrolling interests, net	—	—	—	—	—	(8,944)	(8,944)
Balance at December 31, 2013	\$ 447,683	\$ 3,264	\$ 4,620,964	\$ 4,119	\$ (2,062,787)	\$ 31,386	\$ 3,044,629

See accompanying Notes to Consolidated Financial Statements.

DUKE REALTY CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) THE COMPANY

Substantially all of our Rental Operations (see Note 8) are conducted through Duke Realty Limited Partnership ("DRLP"). We owned approximately 98.7% of the common partnership interests of DRLP ("Units") at December 31, 2013. At the option of the holders, and subject to certain restrictions, the remaining Units 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. If it is determined to be necessary in order to continue to qualify as a real estate investment trust ("REIT"), we may elect to purchase the Units for an equivalent amount of cash rather than issuing shares of common stock upon redemption. We conduct our Service Operations (see Note 8) through Duke Realty Services, LLC, Duke Realty Services Limited Partnership and Duke Construction Limited Partnership ("DCLP"), which are consolidated entities that are 100% owned by a combination of us and DRLP. DCLP is owned through a taxable REIT subsidiary that is 100% owned by DRLP. 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 the accounts of our majority-owned or controlled subsidiaries. The equity interests in these controlled subsidiaries not owned by us are reflected as noncontrolling 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, and variable interest entities ("VIEs") in which we are not the primary beneficiary, are not consolidated and are reflected as investments in unconsolidated companies under the equity method of reporting.

RECLASSIFICATIONS

Certain amounts in the accompanying consolidated financial statements for 2012 and 2011 have been reclassified to conform to the 2013 consolidated financial statement presentation.

REAL ESTATE INVESTMENTS

Rental real property, including land, land improvements, buildings and tenant improvements, are included in real estate investments and are generally stated at cost. Construction in process and undeveloped land 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.

Depreciation

Buildings and land improvements are depreciated on the straight-line method over their estimated lives not to exceed 40 and 15 years, respectively, for properties that we develop, and not to exceed 30 and 10 years, respectively, for acquired properties. Tenant improvement costs are depreciated using the straight-line method over the shorter of the useful life of the asset or term of the related lease.

Cost Capitalization

Direct and certain indirect costs clearly associated with 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 when significant activities have ceased, which does not exceed the shorter of a one-year period after the completion of the building shell or when the property attains 90% occupancy.

Impairment

We evaluate our real estate assets, with the exception of those that are classified as held-for-sale, for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If such an evaluation is considered necessary, we compare the carrying amount of that real estate asset, or asset group, with the expected undiscounted cash flows that are directly associated with, and that are expected to arise as a direct result of, the use and eventual disposition of that asset, or asset group. Our estimate of the expected future cash flows used in testing for impairment is based on, among other things, our estimates regarding future market conditions, rental rates, occupancy levels, costs of tenant improvements, leasing commissions and other tenant concessions, assumptions regarding the residual value of our properties at the end of our anticipated holding period and the length of our anticipated holding period and is, therefore, subjective by nature. These assumptions could differ materially from actual results. If our strategy changes or if market conditions otherwise dictate a reduction in the holding period and an earlier sale date, an impairment loss could be recognized and such loss could be material. To the extent the carrying amount of a real estate asset, or asset group, exceeds the associated estimate of undiscounted cash flows, an impairment loss is recorded to reduce the carrying value of the asset to its fair value.

The determination of the fair value of real estate assets is also highly subjective, especially in markets where there is a lack of recent comparable transactions. We primarily utilize the income approach to estimate the fair value of our income producing real estate assets. We utilize marketplace participant assumptions to estimate the fair value of a real estate asset when an impairment charge is required to be measured. The estimation of future cash flows, as well as the selection of the discount rate and exit capitalization rate used in applying the income approach, are highly subjective measures in estimating fair value.

Real estate assets classified as held-for-sale are reported at the lower of their carrying value or their fair value, less estimated costs to sell. Once a property is designated as held-for-sale, no further depreciation expense is recorded.

Purchase Accounting

We expense acquisition related costs immediately as period costs. We record assets acquired in step acquisitions at their full fair value and record a gain or loss, within acquisition-related activity in our consolidated Statements of Operations, for the difference between the fair value and the carrying value of our existing equity interest. Additionally, contingencies arising from a business combination are recorded at fair value if the acquisition date fair value can be determined during the measurement period.

We allocate the purchase price of acquired properties to tangible and identified intangible assets based on their respective fair values, using all pertinent information available at 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. This "as-if vacant" value is estimated using an income, or discounted cash flow, approach that relies upon internally determined assumptions that we believe are consistent with current market conditions for similar properties. The most important assumptions in determining the allocation of the purchase price to tangible assets are the exit capitalization rate, discount rate, estimated market rents, and hypothetical expected lease-up periods.

The purchase price of real estate assets is also allocated to intangible assets consisting of the above or below market component of in-place leases, the value of in-place leases as well as, to the extent applicable, acquired in-place leases that may have a customer relationship intangible value. There have been no customer relationship intangible assets related to any of our acquisitions to date.

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 received pursuant to the lease over its remaining term and (ii) management's estimate of the amounts that would be received 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.

Factors considered in determining the value allocable to in-place leases include estimates, during hypothetical expected lease-up periods, of space that is actually leased at the time of acquisition, of lost rent at market rates, fixed operating costs that will be recovered from tenants, and theoretical leasing commissions required to execute similar leases. 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.

JOINT VENTURES

We have equity interests in unconsolidated joint ventures that primarily own and operate rental properties or hold land for development. We consolidate those joint ventures that are considered to be VIEs where we are the primary beneficiary. We analyze our investments in joint ventures to determine if the joint venture is considered a VIE and would require consolidation. We (i) evaluate the sufficiency of the total equity investment at risk, (ii) review the voting rights and decision-making authority of the equity investment holders as a group and whether there are any guaranteed returns, protection against losses, or capping of residual returns within the group and (iii) establish whether activities within the venture are on behalf of an investor with disproportionately few voting rights in making this VIE determination.

To the extent that we (i) are the sole entity that has the power to direct the activities of the VIE and (ii) have the obligation or rights to absorb the VIE's losses or receive its benefits, then we would be determined to be the primary beneficiary of the VIE and would consolidate it. At each reporting period, we re-assess our conclusions as to which, if any, party within the VIE is considered the primary beneficiary.

At December 31, 2012, we had three unconsolidated joint ventures that met the criteria to be considered VIEs. In December 2013, one of those joint ventures sold assets and repaid all of its third-party debt, thus removing the subordinated financial support in the form of the guarantee of the joint venture's debt, which we had previously provided. As the result of these events, we re-evaluated the sufficiency of the joint venture's equity at risk and determined that it no longer met the criteria to be considered a VIE. As such, we evaluated the joint venture for consolidation under the voting interest model and determined that the equity method of accounting was still appropriate due to the fact that both we and our partner had substantive participating rights over the joint venture's operations.

After the aforementioned reconsideration event, there were two unconsolidated joint ventures at December 31, 2013 that met the criteria to be considered VIEs. These two unconsolidated joint ventures were formed with the sole purpose of developing, constructing, leasing, marketing and selling or operating properties. The business activities of these unconsolidated joint ventures have been financed through a combination of equity contributions, partner/member loans, and third-party debt that is guaranteed by a combination of us and the other partner/member of each entity. All significant decisions for these unconsolidated joint ventures, including those decisions that most significantly impact each venture's economic performance, require unanimous approval of each joint venture's partners or members. In certain cases, these decisions also require lender approval. Unanimous approval requirements for these unconsolidated joint ventures include entering into new leases, setting annual operating budgets, selling underlying properties, and incurring additional indebtedness. Because no single entity exercises control over the decisions that most significantly affect each joint venture's economic performance, we

determined there to be no individual primary beneficiary and that the equity method of accounting is appropriate.

The following table provides a summary of the carrying value in our consolidated balance sheet, as well as our maximum loss exposure under guarantees for the unconsolidated subsidiaries that we have determined to be VIEs at December 31, 2013 and 2012, respectively (in millions):

	Carrying Value		Maximum Loss Exposure	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Investment in unconsolidated companies	\$ 7.5	\$ 54.7	\$ 7.5	\$ 54.7
Guarantee obligations (1)	\$ (18.4)	\$ (23.3)	\$ (112.8)	\$ (144.8)

- (1) We are party to guarantees of the third-party debt of these joint ventures, and our maximum loss exposure is equal to the maximum monetary obligation pursuant to the guarantee agreements. We have also recorded a liability for our probable future obligation under a guarantee to the lender of one of these ventures, which is included within the carrying value of our guarantee obligations. Pursuant to an agreement with the lender, we may make member loans to this joint venture that will reduce our maximum guarantee obligation, which is \$13.4 million at December 31, 2013, on a dollar-for-dollar basis. The carrying value of our recorded guarantee obligations is included in other liabilities in our Consolidated Balance Sheets.

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

We use the equity method of accounting for those joint ventures where we exercise significant influence but do not have control. 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 the 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. 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.

When circumstances indicate there may have been a reduction in the value of an equity investment, we evaluate whether the loss in value is other than temporary. If we conclude it is other than temporary we recognize an impairment charge to reflect the equity investment at fair value.

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. Additional reserves are recorded for more current amounts, as applicable, where we have determined collectability to be doubtful. Straight-line rent receivables for any tenant with long-term risk, regardless of the status of current rent receivables, are reviewed and reserved as necessary.

DEFERRED COSTS

Costs incurred in connection with obtaining financing are deferred and are amortized to interest expense 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.

Deferred leasing and other costs at December 31, 2013 and 2012, excluding such costs for properties classified as held-for-sale, were as follows (in thousands):

	2013	2012
Deferred leasing costs	\$ 477,374	\$ 466,856
Acquired lease-related intangible assets	383,654	403,018
	<u>\$ 861,028</u>	<u>\$ 869,874</u>
Accumulated amortization - deferred leasing costs	\$ (247,081)	\$ (236,335)
Accumulated amortization - acquired lease-related intangible assets	(146,968)	(135,712)
Total	<u>\$ 466,979</u>	<u>\$ 497,827</u>

The expected future amortization, or charge to rental income, of acquired lease-related intangible assets is summarized in the table below (in thousands):

Year	Amortization Expense	Charge to Rental Income
2014	\$ 54,623	\$ 2,265
2015	41,420	1,741
2016	32,610	1,419
2017	26,159	1,176
2018	19,557	1,007
Thereafter	51,893	2,816
	<u>\$ 226,262</u>	<u>\$ 10,424</u>

CONVERTIBLE DEBT ACCOUNTING

Our 3.75% Exchangeable Senior Notes ("Exchangeable Notes") were issued in November 2006 and had an exchange rate of 20.47 common shares per \$1,000 principal amount of the notes, representing an exchange price of \$48.85 per common share. We repaid the Exchangeable Notes at the first contractual redemption date in December 2011. We accounted for the debt and equity components of our Exchangeable Notes separately, with the value assigned to the debt component equal to the estimated fair value of debt with similar contractual cash flows, but without the conversion feature, resulting in the debt being recorded at a discount. The resulting debt discount was amortized over the period from its issuance through the date of repayment as additional non-cash interest expense.

Interest expense was recognized on the Exchangeable Notes at an effective rate of 5.62%. The increase to interest expense (in thousands) on the Exchangeable Notes, which led to a corresponding decrease to net income, for the year ended December 31, 2011 is summarized as follows:

	2011
Interest expense on Exchangeable Notes, excluding effect of accounting for convertible debt	\$ 5,769
Effect of accounting for convertible debt	2,090
Total interest expense on Exchangeable Notes	<u>\$ 7,859</u>

NONCONTROLLING INTERESTS

Noncontrolling interests relate to the minority ownership interests in DRLP and interests in consolidated property partnerships that are not wholly-owned. Noncontrolling interests are subsequently adjusted for additional contributions, distributions to noncontrolling holders and the noncontrolling holders' proportionate share of the net earnings or losses of each respective entity. We report noncontrolling interests as a component of total equity.

When a Unit is redeemed (Note 1), the change in ownership is treated as an equity transaction and there is no effect on our earnings or net assets.

REVENUE RECOGNITION

Rental and Related Revenue

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. If we determine that the tenant allowances or improvements 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 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 material conditions that must be met or waived before the fee is due to us.

General Contractor and Service Fee Revenue

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 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 reaches 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. To the extent that a fixed-price contract is estimated to result in a loss, the loss is recorded immediately.

Unbilled and overbilled receivables on construction contracts totaled \$9.9 million and \$7.8 million, respectively, at December 31, 2013 and \$18.4 million and \$2.4 million, respectively, at December 31, 2012. Overbilled receivables are included in other liabilities in the Consolidated Balance Sheets.

Property Sales

Gains on sales of all properties are recognized in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 360-20. The specific timing of the sale of a building is measured against various criteria in FASB ASC 360-20 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 full accrual 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.

To the extent that a property has had operations prior to sale, and that we do not have continuing involvement with the property, 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.

Rental properties that do not meet the criteria for presentation as discontinued operations are classified as gain on sale of properties in the Consolidated Statements of Operations and Comprehensive Income.

NET INCOME (LOSS) PER COMMON SHARE

Basic net income (loss) per common share is computed by dividing net income (loss) attributable to common shareholders, less dividends on share-based awards expected to vest (referred to as "participating securities" and primarily composed of unvested restricted stock units), by the weighted average number of common shares outstanding for the period. Diluted net income (loss) per common share is computed by dividing the sum of basic net income (loss) attributable to common shareholders and the noncontrolling interest in earnings allocable to Units not owned by us (to the extent the Units are dilutive), by the sum of the weighted average number of common shares outstanding and, to the extent they are dilutive, Units outstanding and any potential dilutive securities for the period.

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

	2013	2012	2011
Net income (loss) attributable to common shareholders	\$ 153,044	\$ (126,145)	\$ 31,416
Less: Dividends on participating securities	(2,678)	(3,075)	(3,243)
Basic net income (loss) attributable to common shareholders	150,366	(129,220)	28,173
Noncontrolling interest in earnings of common unitholders	2,094	—	859
Diluted net income (loss) attributable to common shareholders	\$ 152,460	\$ (129,220)	\$ 29,032
Weighted average number of common shares outstanding	322,133	267,900	252,694
Weighted average partnership Units outstanding	4,392	—	6,904
Other potential dilutive shares	187	—	—
Weighted average number of common shares and potential dilutive securities	326,712	267,900	259,598

The Units are anti-dilutive for the year ended December 31, 2012, as a result of the net loss for this period. In addition, substantially all potential shares related to our stock-based compensation plans are anti-dilutive for all years presented and potential shares related to our Exchangeable Notes, which were repaid in December 2011, were anti-dilutive for the year ended December 31, 2011. The following table summarizes the data that is excluded from the computation of net income (loss) per common share as a result of being anti-dilutive (in thousands):

	2013	2012	2011
Noncontrolling interest in loss of common unitholders	\$ —	\$ (2,273)	\$ —
Weighted average partnership Units outstanding	—	4,829	—
Other potential dilutive shares:			
Anti-dilutive outstanding potential shares under fixed stock option and other stock-based compensation plans	1,373	1,859	1,677
Anti-dilutive potential shares under the Exchangeable Notes	—	—	3,140
Outstanding participating securities	3,871	4,099	4,780

OTHER COMPREHENSIVE INCOME

In February 2013, the Financial Accounting Standards Board issued Accounting Standards Update No. 2013-02, Other Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income ("ASU 2013-02"), which was effective for us beginning with the three months ended March 31, 2013. ASU 2013-02 requires presentation of significant amounts reclassified out of accumulated other comprehensive income. Activity within other comprehensive income

or loss includes the amortization to interest expense, over the lives of previously hedged loans, of the values of interest rate swaps that have been settled, as well as changes in the fair values of currently outstanding interest rate swaps that we have designated as cash flow hedges. Activity within other comprehensive income is not material for any individual type of activity, as well as for all activities in the aggregate, for all periods presented in this Report.

FEDERAL INCOME TAXES

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended. 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 REIT taxable income to our shareholders. 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 the dividends we pay to shareholders. Accordingly, we generally will not be subject to federal income taxes as long as we currently distribute to shareholders an amount equal to or in excess of our taxable income. We are also generally subject to federal income taxes on any taxable income that is not currently distributed to our 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 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 (loss) to taxable income (loss) before the dividends paid deduction, and subject to the 90% distribution requirement, for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	2013	2012	2011
Net income (loss)	\$ 196,549	\$ (75,868)	\$ 96,309
Book/tax differences	49,383	148,462	(12,885)
Taxable income before the dividends paid deduction	245,932	72,594	83,424
Less: capital gains	(108,938)	—	—
Adjusted taxable income subject to the 90% distribution requirement	\$ 136,994	\$ 72,594	\$ 83,424

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

	2013	2012	2011
Total Cash dividends paid	\$ 251,914	\$ 228,330	\$ 232,203
Less: Return of capital	(2,507)	(152,670)	(144,208)
Dividends paid deduction	249,407	75,660	87,995
Less: Capital gain distributions	(108,938)	—	—
Dividends paid deduction attributable to adjusted taxable income subject to the 90% distribution requirement	\$ 140,469	\$ 75,660	\$ 87,995

A summary of the tax characterization of the dividends paid for the years ended December 31, 2013, 2012 and 2011 follows:

	2013	2012	2011
<u>Common Shares</u>			
Ordinary income	52.6%	14.1%	3.3%
Return of capital	4.4%	85.9%	96.7%
Capital gains	43.0%	—%	—%
	100.0%	100.0%	100.0%
<u>Preferred Shares</u>			
Ordinary income	55.0%	100.0%	100.0%
Capital gains	45.0%	—%	—%
	100.0%	100.0%	100.0%

Deferred Tax Assets

A full valuation allowance for the deferred tax assets of the taxable REIT subsidiary was maintained for 2013, 2012 and 2011. Based on the level of historical taxable income and projections of taxable income under our current operating strategy, management believes that it is more likely than not that the taxable REIT subsidiary will not generate sufficient taxable income to realize any of its deferred tax assets. Income taxes are not material to our operating results or financial position. Our taxable REIT subsidiary has no significant net deferred income tax positions or unrecognized tax benefit items.

Cash Paid for Income Taxes

We paid state and local income taxes of \$830,000, \$580,000 and \$340,000 in 2013, 2012 and 2011, respectively.

FAIR VALUE MEASUREMENTS

We follow the framework established under accounting standard FASB ASC 820 for measuring fair value of non-financial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis but only in certain circumstances, such as a business combination.

Assets and liabilities recorded at fair value on the consolidated balance sheets are categorized based on the inputs to the valuation techniques as follows:

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities to which we have access.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

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. The most significant estimates, as discussed within our Summary of Significant Accounting Policies, pertain to the critical assumptions utilized in testing real estate assets for impairment, estimating the fair value of real estate assets when an impairment event has taken place and allocating the purchase price of acquired properties to tangible and intangible assets based on their respective fair values. Actual results could differ from those estimates.

(3) SIGNIFICANT ACQUISITIONS AND DISPOSITIONS

Acquisitions and dispositions for the periods presented were completed in accordance with our strategy to reposition our investment concentration among product types and further diversify our geographic presence. With the exception of certain properties that have been sold or classified as held for sale, the results of operations for all acquired properties have been included in continuing operations within our consolidated financial statements since their respective dates of acquisition.

2013 ACQUISITIONS

We acquired 17 operating properties during the year ended December 31, 2013. These acquisitions consisted of one industrial property in South Florida, one industrial property in Chicago, Illinois, three industrial properties in Central and Southern New Jersey, three industrial properties in Southern California, two industrial properties in Central California, one industrial property in Houston, Texas, one industrial property near Kansas City, Missouri, one industrial property near St. Louis, Missouri, two industrial properties in Northeast and Central Pennsylvania, one industrial property near Indianapolis, Indiana and one medical office property in Central Florida. The following table summarizes the fair value of amounts recognized for each major class of asset and liability (in thousands) for these acquisitions:

Real estate assets	\$	488,294
Lease-related intangible assets		67,167
Total acquired assets		555,461
Secured debt		103,638
Below market lease liability		2,153
Other liabilities		2,201
Total assumed liabilities		107,992
Fair value of acquired net assets	\$	447,469

The leases in the acquired properties had a weighted average remaining life at acquisition of approximately 7.9 years.

We have included \$24.7 million in rental revenues, \$1.4 million in rental expenses and \$3.6 million in real estate taxes in continuing operations during 2013 for these properties since their respective dates of acquisition.

2012 ACQUISITIONS

We acquired 37 operating properties during the year ended December 31, 2012. These acquisitions consisted of three industrial properties near Chicago, Illinois, two industrial properties in Columbus, Ohio, one industrial property in Southern California, two industrial properties in Northern California, one industrial property in Atlanta, Georgia, one industrial property in Houston, Texas and 27 medical office properties in various markets. The following table summarizes our allocation of the fair value of amounts recognized for each major class of asset and liability (in thousands) for these acquisitions:

Real estate assets	\$	668,149
Lease-related intangible assets		111,509
Other assets		5,714
Total acquired assets		785,372
Secured debt		100,826
Other liabilities		11,928
Total assumed liabilities		112,754
Fair value of acquired net assets	\$	672,618

The leases in the acquired properties had a weighted average remaining life at acquisition of approximately 8.8 years.

We have included \$28.5 million in rental revenues, \$3.6 million in rental expenses and \$3.8 million in real estate taxes in continuing operations during 2012 for these properties since their respective dates of acquisition.

FAIR VALUE MEASUREMENTS

The fair value estimates used in allocating the aggregate purchase price of each acquisition among the individual components of real estate assets and liabilities were determined primarily through calculating the "as-if vacant" value of each building, using the income approach, and relied significantly upon internally determined assumptions. We have determined these estimates to have been primarily based upon Level 3 inputs, which are unobservable inputs based on our own assumptions. The range of most significant assumptions utilized in making the lease-up and future disposition estimates used in calculating the "as-if vacant" value of each building acquired during 2013 and 2012 are as follows:

	2013		2012	
	Low	High	Low	High
Discount rate	6.49%	9.67%	7.13%	10.78%
Exit capitalization rate	5.09%	7.67%	5.75%	8.88%
Lease-up period (months)	12	24	6	36
Net rental rate per square foot - Industrial	\$2.90	\$8.28	\$2.75	\$7.62
Net rental rate per square foot - Medical Office	\$18.00	\$18.00	\$13.20	\$26.14

ACQUISITION-RELATED ACTIVITY

The acquisition-related activity in our consolidated Statements of Operations and Comprehensive Income consisted of transaction costs for completed acquisitions, which are expensed as incurred, as well as gains or losses related to acquisitions where we had a pre-existing non-controlling ownership interest. Acquisition-related activity for the years ended December 31, 2013, 2012 and 2011 includes transaction costs of \$4.1 million, \$4.2 million and \$2.3 million, respectively. In 2013 and 2011, we recognized gains of \$962,000 and \$1.1 million, respectively, related to acquisitions of properties from unconsolidated joint ventures.

DISPOSITIONS

We disposed of income-producing real estate assets and undeveloped land and received net cash proceeds of \$740.0 million, \$138.1 million and \$1.57 billion in 2013, 2012 and 2011, respectively.

Included in the building dispositions in 2013 is the sale of 18 medical office properties in various markets, which totaled 1.1 million square feet and were sold for \$285.9 million. The properties sold were in markets, or were associated with health systems, where we did not believe there to be significant future growth potential.

During the year ended December 31, 2013, 19 office properties and one industrial property were sold from certain of our unconsolidated joint ventures for which our capital distributions totaled \$92.3 million. Our share of gains from joint venture property sales, which are included in equity in earnings, related almost entirely to these sales and totaled \$51.2 million.

Included in the building dispositions in 2011 is the sale of substantially all of our wholly-owned suburban office real estate properties in Atlanta, Chicago, Columbus, Dallas, Minneapolis, Orlando and Tampa, consisting of 79 buildings that had an aggregate of 9.8 million square feet, to affiliates of Blackstone Real Estate Partners. The sales price was approximately \$1.06 billion which, after settlement of certain working capital items and the payment of applicable transaction costs, was received in a combination of approximately \$1.02 billion in cash and the assumption by the buyer of mortgage debt with a face value of approximately \$24.9 million.

Also included in the building dispositions in 2011 is the sale of 13 suburban office buildings, totaling over 2.0 million square feet, to an existing 20%-owned unconsolidated joint venture. These buildings were sold to the unconsolidated joint venture for an agreed value of \$342.8 million, of which our 80% share of proceeds totaled \$273.7 million.

All other dispositions were not individually material.

(4) RELATED PARTY TRANSACTIONS

We provide property management, asset management, leasing, construction and other tenant-related services to unconsolidated companies in which we have equity interests. We recorded the corresponding fees based on contractual terms that approximate market rates for these types of services and have eliminated our ownership percentage of these fees in the consolidated financial statements. The following table summarizes the fees earned from these companies, prior to elimination, for the years ended December 31, 2013, 2012 and 2011, respectively (in thousands):

	2013	2012	2011
Management fees	\$ 9,010	\$ 11,018	\$ 10,090
Leasing fees	2,260	3,411	4,417
Construction and development fees	5,138	4,739	6,711

(5) INVESTMENTS IN UNCONSOLIDATED COMPANIES

As of December 31, 2013, we had equity interests in 19 unconsolidated joint ventures that primarily own and operate rental properties and hold land for development.

Combined summarized financial information for the unconsolidated companies at December 31, 2013 and 2012, and for the years ended December 31, 2013, 2012 and 2011, are as follows (in thousands):

	2013	2012	2011
Rental revenue	\$ 240,064	\$ 291,534	\$ 272,937
Gain on sale of properties	\$ 121,404	\$ 6,792	\$ 2,304
Net income	\$ 116,832	\$ 3,125	\$ 10,709
Equity in earnings of unconsolidated companies	\$ 54,116	\$ 4,674	\$ 4,565
Land, buildings and tenant improvements, net	\$ 1,656,231	\$ 1,991,823	
Construction in progress	12,338	61,663	
Undeveloped land	126,556	175,143	
Other assets	206,414	289,173	
	\$ 2,001,539	\$ 2,517,802	
Indebtedness	\$ 890,513	\$ 1,314,502	
Other liabilities	93,291	70,519	
	983,804	1,385,021	
Owners' equity	1,017,735	1,132,781	
	\$ 2,001,539	\$ 2,517,802	
Investments in and advances to unconsolidated companies (1)	\$ 342,947	\$ 372,256	

(1) Differences between the net investment in our unconsolidated joint ventures and our underlying equity in the net assets of the ventures are primarily a result of previous impairments related to our investment in the unconsolidated joint ventures, basis differences associated with the sales of properties to joint ventures in which we retained an ownership interest and loans we have made to the joint ventures. These adjustments have resulted in an aggregate difference reducing our investments in unconsolidated joint ventures by \$4.2 million and \$15.2 million as of December 31, 2013 and 2012, respectively. Differences between historical cost basis and the basis reflected at the joint venture level (other than loans and impairments) are typically depreciated over the life of the related asset.

The scheduled principal payments of long term debt for the unconsolidated joint ventures for each of the next five years and thereafter as of December 31, 2013 are as follows (in thousands):

Year	Future Repayments
2014	\$ 178,112
2015	133,749
2016	116,492
2017	338,054
2018	3,769
Thereafter	119,112
	<u>\$ 889,288</u>

(6) DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

The following table illustrates the number of sold or held-for-sale properties included in, or excluded from, discontinued operations:

	Held For Sale at December 31, 2013	Sold in 2013	Sold in 2012	Sold in 2011	Total
Office	0	12	10	93	115
Industrial	9	6	17	7	39
Medical Office	2	6	0	0	8
Retail	0	1	1	1	3
Total properties included in discontinued operations	11	25	28	101	165
Properties excluded from discontinued operations	1	13	0	18	32
Total properties sold or classified as held-for-sale	12	38	28	119	197

We allocate interest expense to discontinued operations and have included such interest expense in computing income from discontinued operations. Interest expense allocable to discontinued operations includes interest on any secured debt for 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 unencumbered real estate assets included in discontinued operations as it related to the total gross book value of our unencumbered real estate assets.

The following table illustrates the operations of the buildings reflected in discontinued operations for the years ended December 31, 2013, 2012 and 2011, respectively (in thousands):

	2013	2012	2011
Revenues	\$ 46,066	\$ 71,028	\$ 250,807
Operating expenses	(17,777)	(26,139)	(110,634)
Depreciation and amortization	(15,600)	(30,404)	(80,609)
Operating income	12,689	14,485	59,564
Interest expense	(10,928)	(18,271)	(61,041)
Income (loss) before gain on sales	1,761	(3,786)	(1,477)
Gain on sale of depreciable properties	133,242	13,467	100,882
Income from discontinued operations	<u>\$ 135,003</u>	<u>\$ 9,681</u>	<u>\$ 99,405</u>

Dividends on preferred shares and adjustments for the redemption or repurchase of preferred shares are allocated entirely to continuing operations.

ALLOCATION OF NONCONTROLLING INTERESTS

The following table illustrates the income (loss) attributable to common shareholders from continuing operations and discontinued operations, reduced by the allocation of income or loss between continuing and discontinued operations to noncontrolling interests, for the years ended December 31, 2013, 2012 and 2011, respectively (in thousands):

	2013	2012	2011
Income (loss) from continuing operations attributable to common shareholders	\$ 23,126	\$ (135,655)	\$ (65,345)
Income from discontinued operations attributable to common shareholders	129,918	9,510	96,761
Net income (loss) attributable to common shareholders	\$ 153,044	\$ (126,145)	\$ 31,416

PROPERTIES HELD FOR SALE

At December 31, 2013, we classified eleven in-service properties as held-for-sale, which were included in discontinued operations. Additionally, we have classified one in-service property as held-for-sale, but have included the results of operations of this property in continuing operations because of continuing involvement through a management agreement. At December 31, 2012, we classified two in-service properties as held-for-sale. The following table illustrates aggregate balance sheet information of these held-for-sale properties (in thousands):

	December 31, 2013	December 31, 2012
Real estate investment, net	\$ 47,592	\$ 24,994
Other assets	9,874	5,943
Total assets held-for-sale	\$ 57,466	\$ 30,937
Accrued expenses	\$ 1,481	\$ 94
Other liabilities	594	713
Total liabilities held-for-sale	\$ 2,075	\$ 807

(7) INDEBTEDNESS

Indebtedness at December 31, 2013 and 2012 consists of the following (in thousands):

	Maturity Date	Weighted Average Interest Rate 2013	Weighted Average Interest Rate 2012	2013	2012
Fixed rate secured debt	2014 to 2027	6.23%	6.19%	\$ 1,081,035	\$ 1,149,541
Variable rate secured debt	2014 to 2025	2.11%	2.01%	19,089	18,412
Unsecured debt	2015 to 2028	5.36%	6.17%	3,066,252	2,993,217
Unsecured line of credit	2015	1.42%	1.47%	88,000	285,000
				\$ 4,254,376	\$ 4,446,170

SECURED DEBT

At December 31, 2013, our secured debt was collateralized by rental properties with a carrying value of \$1.9 billion and by letters of credit in the amount of \$4.4 million.

The fair value of our fixed rate secured debt at December 31, 2013 was \$1.1 billion. Because our fixed rate secured debt is not actively traded in any marketplace, we utilized a discounted cash flow methodology to determine its fair value. Accordingly, we calculated fair value by applying an estimate of the current market rate to discount the debt's remaining contractual cash flows. Our estimate of a current market rate, which is the most significant input in the discounted cash flow calculation, is intended to replicate debt of similar maturity and loan-to-value relationship. The estimated rates ranged from 3.90% to 5.30%, depending on the attributes of the specific loans. The current market rates we utilized

were internally estimated; therefore, we have concluded that our determination of fair value for our fixed rate secured debt was primarily based upon Level 3 inputs.

We assumed three secured loans in conjunction with our acquisition activity in 2013. These assumed loans had a total face value of \$99.3 million and a fair value of \$103.6 million. These assumed loans had a weighted average remaining term at acquisition of 1.8 years and carry a weighted average stated interest rate of 5.59%. We used an estimated market interest rate of 3.00% in determining the fair value of these loans. Between the date of acquisition and the end of the most recent reporting period, interest rates increased, resulting in our estimated market interest rate for these loans increasing to 3.90%.

We assumed nine secured loans in conjunction with our acquisition activity in 2012. These assumed loans had a total face value of \$96.1 million and fair value of \$100.8 million. These assumed loans carry a weighted average stated interest rate of 5.56% and had a weighted average remaining term at acquisition of 2.4 years. We used an estimated market rate of 3.50% in determining the fair value of these loans.

In 2012, a newly formed consolidated subsidiary borrowed \$13.3 million on a secured note bearing interest at a variable rate of LIBOR plus 2.50% (equal to 2.67% for outstanding borrowings as of December 31, 2013) and maturing June 29, 2017.

During the year ended December 31, 2013, we repaid twelve secured loans, at their maturity dates, totaling \$153.8 million. These loans had a weighted average stated interest rate of 5.52%.

During the year ended December 31, 2012, we repaid five secured loans at their maturity dates totaling \$102.1 million. These loans had a weighted average stated interest rate of 6.08%.

UNSECURED DEBT

At December 31, 2013, with the exception of the \$250.0 million variable rate term note described below, all of our unsecured debt bore interest at fixed rates and primarily consisted of unsecured notes that are publicly traded. We utilized broker estimates in estimating the fair value of our fixed rate unsecured debt. Our unsecured notes are thinly traded and, in certain cases, the broker estimates were not based upon comparable transactions. The broker estimates took into account any recent trades within the same series of our fixed rate unsecured debt, comparisons to recent trades of other series of our fixed rate unsecured debt, trades of fixed rate unsecured debt from companies with profiles similar to ours, as well as overall economic conditions. We reviewed these broker estimates for reasonableness and accuracy, considering whether the estimates were based upon market participant assumptions within the principal and most advantageous market and whether any other observable inputs would be more accurate indicators of fair value than the broker estimates. We concluded that the broker estimates were representative of fair value. We have determined that our estimation of the fair value of our fixed rate unsecured debt was primarily based upon Level 3 inputs, as defined. The estimated trading values of our fixed rate unsecured debt, depending on the maturity and coupon rates, ranged from 92.00% to 124.00% of face value.

We utilize a discounted cash flow methodology in order to estimate the fair value of our variable rate term loan. The net present value of the difference between future contractual interest payments and future interest payments based on our estimate of a current market rate represents the difference between the book value and the fair value. Our estimate of a current market rate was based on estimated market spreads and the quoted yields on federal government treasury securities with similar maturity dates.

We took the following actions during 2013 and 2012 as it pertains to our unsecured indebtedness:

- In December 2013, we issued \$250.0 million of unsecured notes that bear interest at 3.875%, have an effective rate of 3.91%, and mature on February 15, 2021.
- During the year ended December 31, 2013, we repaid three unsecured notes totaling \$675.0 million. These notes had a weighted average effective rate of 6.37% and a weighted average stated rate of 5.57%. An unsecured note was repaid prior to its maturity date, and we incurred a loss on extinguishment of \$9.4 million, which related to a make-whole payment to the bondholders as well as the write-off of unamortized deferred financing costs.

- In May 2013, we issued and fully drew down on a term loan with an aggregate commitment of \$250.0 million that bears interest at a variable rate of LIBOR plus 1.35% (equal to 1.52% for outstanding borrowings at December 31, 2013) and matures May 14, 2018.
- In March 2013, we issued \$250.0 million of unsecured notes that bear interest at 3.625%, have an effective rate of 3.72%, and mature on April 15, 2023.
- In October 2012, we repaid \$50.0 million of medium term notes, which had an effective interest rate of 5.45%, at their scheduled maturity date.
- In September 2012, we issued \$300.0 million of unsecured notes that bear interest at 3.875%, have an effective rate of 3.925%, and mature on October 15, 2022.
- In August 2012, we repaid \$150.0 million of senior unsecured notes, which had an effective interest rate of 6.01%, at their scheduled maturity date.
- In July 2012, one of our consolidated subsidiaries repaid \$21.0 million of variable rate unsecured debt, which bore interest at a rate of LIBOR plus 0.85%, at its scheduled maturity date.
- In June 2012, we issued \$300.0 million of senior unsecured notes that bear interest at 4.375%, have an effective rate of 4.466% and mature on June 15, 2022.

The indentures (and related supplemental indentures) governing our outstanding series of notes also require us to comply with financial ratios and other covenants regarding our operations. We were in compliance with all such covenants at December 31, 2013.

UNSECURED LINE OF CREDIT

Our unsecured line of credit at December 31, 2013 is described as follows (in thousands):

Description	Borrowing Capacity	Maturity Date	Outstanding Balance at December 31, 2013
Unsecured Line of Credit – DRLP	\$ 850,000	December 2015	\$ 88,000

The DRLP unsecured line of credit has an interest rate on borrowings of LIBOR plus 1.25% (equal to 1.42% for borrowings at December 31, 2013) and a maturity date of December 2015. Subject to certain conditions, the terms also include an option to increase the facility by up to an additional \$400.0 million, for a total of up to \$1.25 billion.

This line of credit provides us with an option to obtain borrowings from financial institutions that participate in the line at rates that may be lower than the stated interest rate, subject to certain restrictions.

This line of credit contains financial covenants that require us to meet certain financial ratios and defined levels of performance, including those related to total fixed charge coverage, unsecured interest expense coverage and debt-to-asset value (with asset value being defined in the DRLP unsecured line of credit agreement). At December 31, 2013, we were in compliance with all covenants under this line of credit.

To the extent that there are outstanding borrowings, we utilize a discounted cash flow methodology in order to estimate the fair value of our unsecured line of credit. The net present value of the difference between future contractual interest payments and future interest payments based on our estimate of a current market rate represents the difference between the book value and the fair value. Our estimate of a current market rate was based on estimated market spreads and the quoted yields on federal government treasury securities with similar maturity dates. The current market rate of 1.47% that we utilized was internally estimated; therefore, we have concluded that our determination of fair value for our unsecured line of credit was primarily based upon Level 3 inputs.

Through July 2012, a consolidated subsidiary had an unsecured line of credit that allowed for borrowings up to \$30.0 million and bore interest at a rate of LIBOR plus 0.85%. This unsecured line of credit was used to fund development activities within the consolidated subsidiary and the outstanding balance of \$20.3 million was repaid at its maturity in July 2012.

CHANGES IN FAIR VALUE

As all of our fair value debt disclosures relied primarily on Level 3 inputs, the following table summarizes the book value and changes in the fair value of our debt for the year ended December 31, 2013 (in thousands):

	Book Value at Dec. 31, 2012	Book Value at Dec. 31, 2013	Fair Value at Dec. 31, 2012	Issuances and Assumptions	Payoffs	Adjustments to Fair Value	Fair Value at Dec. 31, 2013
Fixed rate secured debt	\$ 1,149,541	\$ 1,081,035	\$ 1,251,477	\$ 103,638	\$ (167,932)	\$ (41,466)	\$ 1,145,717
Variable rate secured debt	18,412	19,089	18,386	1,933	(1,256)	26	19,089
Unsecured debt	2,993,217	3,066,252	3,336,386	750,000	(676,965)	(158,903)	3,250,518
Unsecured line of credit	285,000	88,000	285,632	—	(197,000)	(249)	88,383
Total	\$ 4,446,170	\$ 4,254,376	\$ 4,891,881	\$ 855,571	\$ (1,043,153)	\$ (200,592)	\$ 4,503,707

SCHEDULED MATURITIES AND INTEREST PAID

At December 31, 2013, the scheduled amortization and maturities of all indebtedness, excluding fair value and other accounting adjustments, for the next five years and thereafter were as follows (in thousands):

Year	Amount
2014	\$ 84,060
2015	546,004
2016	530,439
2017	568,268
2018	557,937
Thereafter	1,961,007
	<u>\$ 4,247,715</u>

The amount of interest paid in 2013, 2012 and 2011 was \$254.2 million, \$246.1 million and \$261.2 million, respectively. The amount of interest capitalized in 2013, 2012 and 2011 was \$16.8 million, \$9.4 million and \$4.3 million, respectively.

(8) SEGMENT REPORTING

We have four reportable operating segments at December 31, 2013, the first three of which consist of the ownership and rental of (i) industrial, (ii) office and (iii) medical office real estate investments. The operations of our industrial, office and medical office properties, along with our retail properties, are collectively referred to as "Rental Operations." Our retail properties, as well as any other properties not included in our reportable segments, do not by themselves meet the quantitative thresholds for separate presentation as a reportable segment. The fourth reportable segment consists of various real estate services such as property management, asset management, maintenance, leasing, development, general contracting and construction management to third-party property owners and joint ventures, and is collectively referred to as "Service Operations." Our reportable segments offer different products or services and are managed separately because each segment requires different operating strategies and management expertise.

We assess and measure our overall operating results based upon Funds From Operations ("FFO"), as defined by the National Association of Real Estate Investment Trusts ("NAREIT"). FFO is an industry performance measure that management believes is a useful indicator of consolidated operating performance. FFO is used by industry analysts and investors as a supplemental operating performance measure of a REIT. NAREIT created FFO as a non-GAAP supplemental measure of REIT operating performance. FFO, as defined by NAREIT, represents GAAP net income (loss), excluding extraordinary items as defined under GAAP, gains or losses from sales of previously depreciated real estate assets, impairment charges related to depreciable real estate assets, plus certain non-cash items such as real estate asset depreciation and amortization, and after similar adjustments for unconsolidated partnerships and joint ventures. The most comparable GAAP measure is net income (loss) attributable to common shareholders. FFO attributable to common shareholders should not be considered as a substitute for net income (loss) attributable to common shareholders or any other measures derived in accordance with GAAP and may not be comparable to other similarly titled measures of other companies.

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. Management believes that the use of FFO attributable to common shareholders, combined with net income (which remains the primary measure of performance), improves the understanding of operating results of REITs among the investing public and makes comparisons of REIT operating results more meaningful. Management believes that the use of FFO as a performance measure enables investors and analysts to readily identify the operating results of the long-term assets that form the core of a REIT's activity and assist them in comparing these operating results between periods or between different companies.

Other revenue consists of other operating revenues not identified with one of our operating segments. We do not allocate interest expense and certain other non-property specific revenues and expenses ("Non-Segment Items," as shown in the table below) to our individual operating segments in determining our performance measure. Thus, the operational performance measure presented here on a segment-level basis represents net earnings, excluding depreciation expense and the Non-Segment Items not allocated, and is not meant to present FFO as defined by NAREIT.

The following table shows (i) the revenues for each of the reportable segments and (ii) a reconciliation of FFO attributable to common shareholders to net income (loss) attributable to common shareholders for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	2013	2012	2011
<u>Revenues</u>			
Rental Operations:			
Industrial	\$ 483,679	\$ 431,277	\$ 367,992
Office	251,270	242,719	251,766
Medical Office	127,475	82,962	47,309
Non-reportable Rental Operations	7,206	7,246	7,631
Service Operations	206,596	275,071	521,796
Total segment revenues	1,076,226	1,039,275	1,196,494
Other revenue	5,564	7,421	11,544
Consolidated revenue from continuing operations	1,081,790	1,046,696	1,208,038
Discontinued operations	46,066	71,028	250,807
Consolidated revenue	\$ 1,127,856	\$ 1,117,724	\$ 1,458,845
<u>Reconciliation of Funds From Operations</u>			
Net earnings excluding depreciation and Non-Segment Items:			
Industrial	\$ 360,769	\$ 322,373	\$ 271,493
Office	146,712	141,116	148,736
Medical Office	85,295	55,410	29,024
Non-reportable Rental Operations	4,634	5,073	5,475
Service Operations	22,763	20,201	41,316
	620,173	544,173	496,044
Non-Segment Items:			
Interest expense	(228,895)	(229,992)	(206,770)
Impairment charges on non-depreciable properties	(3,777)	—	(12,931)
Interest and other income, net	1,887	514	658
Other operating income (expenses)	470	(633)	(1,237)
General and administrative expenses	(42,673)	(46,424)	(43,107)
Gain on land sales	9,547	—	—
Undeveloped land carrying costs	(8,614)	(8,829)	(8,934)
Loss on debt extinguishment	(9,433)	—	—
Acquisition-related activity	(3,093)	(4,192)	(1,188)
Income tax benefit	5,080	103	194
Other non-segment income	1,029	3,728	6,131
Net (income) loss attributable to noncontrolling interests	(5,957)	1,891	(744)
Joint venture items	34,129	37,469	38,161
Dividends on preferred shares	(31,616)	(46,438)	(60,353)
Adjustments for redemption/repurchase of preferred shares	(5,932)	(5,730)	(3,796)
Discontinued operations	17,361	26,618	79,132
Noncontrolling interest share of FFO adjustments	(2,645)	(7,054)	(6,644)
FFO attributable to common shareholders	347,041	265,204	274,616
Depreciation and amortization on continuing operations	(393,450)	(349,015)	(305,070)
Depreciation and amortization on discontinued operations	(15,600)	(30,404)	(80,609)
Company's share of joint venture adjustments	(31,220)	(34,702)	(33,687)
Earnings from depreciated property sales on continuing operations	59,179	344	68,549
Earnings from depreciated property sales on discontinued operations	133,242	13,467	100,882
Earnings from depreciated property sales - share of joint venture	51,207	1,907	91
Noncontrolling interest share of FFO adjustments	2,645	7,054	6,644
Net income (loss) attributable to common shareholders	\$ 153,044	\$ (126,145)	\$ 31,416

The assets for each of the reportable segments at December 31, 2013 and 2012 were as follows (in thousands):

	December 31, 2013	December 31, 2012
Assets		
Rental Operations:		
Industrial	\$ 4,414,740	\$ 3,836,721
Office	1,524,501	1,683,314
Medical Office	1,170,420	1,202,929
Non-reportable Rental Operations	81,056	175,197
Service Operations	145,222	162,219
Total segment assets	7,335,939	7,060,380
Non-segment assets	416,675	499,721
Consolidated assets	\$ 7,752,614	\$ 7,560,101

Tenant improvements and leasing costs to re-let rental space that we previously leased to tenants are referred to as second generation expenditures. Building improvements that are not specific to any tenant but serve to improve integral components of our real estate properties are also second generation expenditures. In addition to revenues and FFO, we also review our second generation capital expenditures in measuring the performance of our individual Rental Operations segments. We review these expenditures to determine the costs associated with re-leasing vacant space and maintaining the condition of our properties. Our second generation capital expenditures by segment are summarized as follows for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	2013	2012	2011
Second Generation Capital Expenditures			
Industrial	\$ 41,971	\$ 33,095	\$ 34,872
Office	46,600	30,092	63,933
Medical Office	3,106	641	410
Non-reportable Rental Operations segments	121	56	49
Total	\$ 91,798	\$ 63,884	\$ 99,264

(9) LEASING ACTIVITY

Future minimum rents due to us under non-cancelable operating leases at December 31, 2013 are as follows (in thousands):

Year	Amount
2014	\$ 703,876
2015	689,296
2016	621,198
2017	545,905
2018	462,986
Thereafter	1,885,474
	\$ 4,908,735

In addition to minimum rents, certain leases require reimbursements of specified operating expenses that amounted to \$196.3 million, \$174.2 million and \$190.8 million for the years ended December 31, 2013, 2012 and 2011, respectively.

(10) EMPLOYEE BENEFIT PLANS

We maintain a 401(k) plan for our eligible 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. In February 2013, we revised the Company's matching program, changing the matching contributions from 100% of the employee salary deferral contributions up to two percent of eligible compensation to 50% of the employee salary deferral contributions up to six percent of eligible compensation. Also, a

discretionary contribution was declared at the end of 2013, 2012 and 2011. The total expense recognized for this plan was \$2.9 million, \$2.2 million and \$2.5 million for the years ended December 31, 2013, 2012 and 2011, respectively.

We make contributions to a contributory health and welfare plan as necessary to fund claims not covered by employee contributions. The total expense we recognized related to this plan was \$7.9 million, \$7.5 million and \$9.5 million for 2013, 2012 and 2011, 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 use 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 January 2013, we completed a public offering of 41.4 million common shares at an issue price of \$14.25 per share, resulting in gross proceeds of \$590.0 million and, after deducting underwriting fees and estimated offering costs, net proceeds of approximately \$571.9 million. A portion of the net proceeds from this offering were used to repay all of the outstanding borrowings under our existing revolving credit facility, which had an outstanding balance of \$285.0 million at December 31, 2012, and the remaining proceeds were used to redeem all of our outstanding 8.375% Series O Cumulative Redeemable Preferred Shares ("Series O Shares") and for general corporate purposes.

Throughout 2013, we issued 4.8 million shares of common stock pursuant to our at the market equity program, generating gross proceeds of approximately \$79.3 million and, after deducting commissions and other costs, net proceeds of approximately \$77.8 million. The proceeds from these offerings were used for general corporate purposes, which include the funding of development costs.

In February 2013, we redeemed all of the outstanding shares of our Series O Shares at their liquidation amount of \$178.0 million. Original offering costs of \$5.9 million were included as a reduction to net income attributable to common shareholders in conjunction with the redemption of these shares.

Throughout 2012, we issued 22.7 million shares of common stock pursuant to our at the market equity program, generating gross proceeds of approximately \$322.2 million and, after considering commissions and other costs, net proceeds of approximately \$315.3 million. The proceeds from these offerings were used for acquisitions, general corporate purposes and redemption of preferred shares and fixed rate secured debt.

In March 2012, we redeemed all of the outstanding shares of our 6.950% Series M Cumulative Redeemable Preferred Shares at a liquidation amount of \$168.3 million. Offering costs of \$5.7 million were included as an increase to net loss attributable to common shareholders in conjunction with the redemption of these shares.

In July 2011, we redeemed all of the outstanding shares of our 7.250% Series N Cumulative Redeemable Preferred Shares at a liquidation amount of \$108.6 million. Offering costs of \$3.6 million were included as a reduction to net income attributable to common shareholders in conjunction with the redemption of these shares.

In February 2011, we repurchased 80,000 shares of our Series O Shares. The Series O Shares that were repurchased had a total redemption value of \$2.0 million and were repurchased for \$2.1 million. An adjustment of approximately \$163,000, which included a ratable portion of original issuance costs, was included as a reduction to net income attributable to common shareholders.

The following series of preferred shares were outstanding as of December 31, 2013 (in thousands, except percentage data):

Description	Shares Outstanding	Dividend Rate	Optional Redemption Date	Liquidation Preference
Series J Preferred	396	6.625%	August 29, 2008	\$99,058
Series K Preferred	598	6.500%	February 13, 2009	\$149,550
Series L Preferred	796	6.600%	November 30, 2009	\$199,075

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).

(12) STOCK BASED COMPENSATION

We are authorized to issue up to 9.7 million shares of our common stock under our stock-based employee and non-employee compensation plans.

RESTRICTED STOCK UNITS

Under our 2005 Long-Term Incentive Plan and our 2005 Non-Employee Directors Compensation Plan (collectively, the "Compensation Plans") approved by our shareholders in April 2005, RSUs may be granted to non-employee directors, executive officers and selected management employees. A RSU is economically equivalent to a share of our common stock.

RSUs granted to employees generally vest 20% per year over five years, have contractual lives of five years and are payable in shares of our common stock with a new share of such common stock issued upon each RSU's vesting. RSUs granted to existing non-employee directors vest 100% over one year, and have contractual lives of one year.

To the extent that a recipient of a RSU grant is not determined to be retirement eligible, as defined by the Compensation Plans, we recognize expense on a straight-line basis over the vesting period. Expense is recognized immediately at the date of grant to the extent a recipient is retirement eligible and expense is accelerated to the extent that a participant will become retirement eligible prior to the end of the contractual life of granted RSUs.

The following table summarizes transactions for our RSUs, excluding dividend equivalents, for 2013:

Restricted Stock Units	Number of RSUs	Weighted Average Grant Date Fair Value
RSUs at December 31, 2012	2,680,765	\$12.26
Granted	834,435	\$16.32
Vested	(974,476)	\$12.00
Forfeited	(196,043)	\$13.47
RSUs at December 31, 2013	2,344,681	\$13.71

Compensation cost recognized for RSUs totaled \$13.3 million, \$11.5 million and \$11.2 million for the years ended December 31, 2013, 2012 and 2011, respectively.

As of December 31, 2013, there was \$12.7 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 2.9 years.

(13) FINANCIAL INSTRUMENTS

We are exposed to capital market risk, such as changes in interest rates. In an effort to manage 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.

The effectiveness of our hedges is 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. We had no material interest rate derivatives, when considering the fair value of the hedging instruments, in any period presented.

(14) COMMITMENTS AND CONTINGENCIES

We have guaranteed the repayment of \$76.2 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 four of our unconsolidated subsidiaries. At December 31, 2013, the maximum guarantee exposure for these loans was approximately \$188.4 million.

We lease certain land positions with terms extending to October 2105, with a total future payment obligation of \$215.4 million. No payments on these ground leases, which are classified as operating leases, are material in any individual year.

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.

We own certain parcels of land that are subject to special property tax assessments levied by quasi municipal entities. To the extent that such special assessments are fixed and determinable, the discounted value of the full assessment is recorded as a liability. We have \$12.4 million of such special assessment liabilities, which are included within other liabilities on our consolidated balance sheet as of December 31, 2013.

(15) SUBSEQUENT EVENTS

DECLARATION OF DIVIDENDS

Our board of directors declared the following dividends at its regularly scheduled board meeting held on January 29, 2014:

Class of stock	Quarterly Amount per Share	Record Date	Payment Date
Common	\$ 0.170000	February 14, 2014	February 28, 2014
Preferred (per depository share):			
Series J	\$ 0.414063	February 14, 2014	February 28, 2014
Series K	\$ 0.406250	February 14, 2014	February 28, 2014
Series L	\$ 0.412500	February 14, 2014	February 28, 2014

SELECTED QUARTERLY FINANCIAL INFORMATION (Unaudited)

Selected quarterly information for the years ended December 31, 2013 and 2012 is as follows (in thousands, except per share amounts):

	Quarter Ended			
	December 31	September 30	June 30	March 31
2013				
Rental and related revenue	\$ 227,036	\$ 222,112	\$ 215,748	\$ 210,298
General contractor and service fee revenue	\$ 45,592	\$ 62,807	\$ 50,793	\$ 47,404
Net income (loss) attributable to common shareholders	\$ 69,574	\$ (6,067)	\$ 61,494	\$ 28,043
Basic income (loss) per common share	\$ 0.21	\$ (0.02)	\$ 0.19	\$ 0.09
Diluted income (loss) per common share	\$ 0.21	\$ (0.02)	\$ 0.19	\$ 0.09
Weighted average common shares	326,059	324,895	322,489	314,936
Weighted average common shares and potential dilutive securities	330,834	324,895	327,098	319,571
2012				
Rental and related revenue	\$ 204,089	\$ 192,865	\$ 188,711	\$ 185,960
General contractor and service fee revenue	\$ 48,564	\$ 93,932	\$ 63,607	\$ 68,968
Net loss attributable to common shareholders	\$ (33,043)	\$ (28,230)	\$ (28,482)	\$ (36,390)
Basic loss per common share	\$ (0.12)	\$ (0.11)	\$ (0.11)	\$ (0.14)
Diluted loss per common share	\$ (0.12)	\$ (0.11)	\$ (0.11)	\$ (0.14)
Weighted average common shares	276,081	270,289	266,748	258,365
Weighted average common shares and potential dilutive securities	276,081	270,289	266,748	258,365

RECONCILIATION OF FFO, CORE FFO & AFFO

Core Funds from Operations ("Core FFO"): Core FFO is computed as FFO adjusted for certain items that are generally non-cash in nature and that materially distort the comparative measurement of company performance over time. The adjustments include impairment charges, tax expenses or benefit related to (i) changes in deferred tax asset valuation allowances, (ii) changes in tax exposure accruals that were established as the result of the previous adoption of new accounting principles, or (iii) taxable income (loss) related to other items excluded from FFO or Core FFO (collectively referred to as "other income tax items"), gains (losses) on debt transactions, adjustments on the repurchase of preferred stock, gains (losses) on and related costs of acquisitions, and severance charges related to overhead restructuring activities. Although our calculation of Core FFO differs from NAREIT's definition of FFO and may not be comparable to that of other REITs and real estate companies, we believe it provides a meaningful supplemental measure of our operating performance.

Adjusted Funds from Operations ("AFFO"): AFFO is defined by the company as Core FFO (as defined above), less recurring building improvements and second generation capital expenditures (the leasing of vacant space that had previously been under lease by the company is referred to as second generation lease activity), and adjusted for certain non-cash items including straight line rental income, non-cash components of interest expense and stock compensation expense, and after similar adjustments for unconsolidated partnerships and joint ventures.

Twelve Months Ended December 31 (in thousands, except per share amounts)									
(Unaudited)									
	2013			2012			2011		
	Amount	Wtd. Avg. Shares	Per Share	Amount	Wtd. Avg. Shares	Per Share	Amount	Wtd. Avg. Shares	Per Share
Funds From Operations, as defined by NAREIT - Basic	\$ 347,041	322,133	\$ 1.08	\$ 265,204	267,900	\$ 0.99	\$ 274,616	252,694	\$ 1.09
Noncontrolling interest in income (loss) of unitholders	2,094	4,392		(2,273)	4,829		859	6,904	
Noncontrolling interest share of adjustments	2,645			7,054			6,644		
Other potentially dilutive securities		3,213			3,276			3,588	
Funds From Operations- Diluted	\$ 351,780	329,738	\$ 1.07	\$ 269,985	276,005	\$ 0.98	\$ 282,119	263,186	\$ 1.07
Gain on land sales	(9,547)			—			—		
Loss on debt extinguishment	9,433			—			—		
Adjustments for redemption of preferred shares	5,932			5,730			3,796		
Impairment charges - non-depreciable properties	3,777			—			12,931		
Acquisition-related activity	3,093			4,192			1,188		
Other income tax items	(641)			(103)			(194)		
Overhead restructuring charges	—			2,664			3,407		
Core Funds From Operations- Diluted	\$ 363,827	329,738	\$ 1.10	\$ 282,468	276,005	\$ 1.02	\$ 303,247	263,186	\$ 1.15
Adjusted Funds From Operations									
Core Funds From Operations- Diluted	\$ 363,827	329,738	\$ 1.10	\$ 282,468	276,005	\$ 1.02	\$ 303,247	263,186	\$ 1.15
Adjustments:									
Straight-line rental income	(17,552)			(24,759)			(28,622)		
Amortization of above/below market rents and concessions	9,054			8,867			12,731		
Stock based compensation expense	15,602			12,940			12,596		
Noncash interest expense	8,315			9,337			11,261		
Second generation concessions	(579)			(1,113)			(3,010)		
Second generation tenant improvements	(39,922)			(28,258)			(54,409)		
Second generation leasing commissions	(28,460)			(25,027)			(36,746)		
Building improvements	(13,838)			(6,842)			(11,443)		
Adjusted Funds From Operations - Diluted	\$ 296,447	329,738	\$ 0.90	\$ 227,613	276,005	\$ 0.82	\$ 205,605	263,186	\$ 0.78

SUPPLEMENTAL PERFORMANCE AND LIQUIDITY MEASURES

Same Property Performance: We include same-property net operating income ("NOI") information as a property-level supplemental measure of performance. Same-property NOI represents the year-over-year percentage change in property level net operating income for all properties that have been owned and in service for at least 24 months and that did not have gross lease termination fee in excess of \$250,000 during the most recent 24 month period. Net operating income is equal to property-level FFO, straight-line rent, concession amortization and market lease amortization.

We do not believe same-property NOI growth to be a primary measure of overall company operating performance; rather we utilize same-property NOI growth as a supplemental measure to evaluate property-level performance. Same property information includes unconsolidated properties.

A description of the properties that are excluded from our same-property measure is included on page 22 of our December 31, 2013 supplemental information.

Core EBITDA: Earnings before interest, taxes, depreciation and amortization ("EBITDA") adjusted for such items as gains on land or depreciable property sales (including joint venture share of such gains), gains (losses) on and related costs of acquisitions, impairment charges, gains and losses on capital transactions and severance charges related to major overhead restructuring activities. Core EBITDA is computed both with and without our share of joint venture EBITDA. Core EBITDA, with and without our share of joint venture EBITDA, is calculated as follows (in thousands):

	2013	2012	2011
Net Income (Loss)	\$ 196,549	\$ (75,868)	\$ 96,309
Add Depreciation and Amortization - Continuing Operations	393,450	349,015	305,070
Add Depreciation and Amortization - Discontinued Operations	15,600	30,404	80,609
Add Interest Expense - Continuing Operations	228,895	229,992	206,770
Add Interest Expense - Discontinued Operations	10,928	18,271	61,041
Less Income Tax Benefit/Other Income Tax Items	(5,080)	(103)	(194)
EBITDA, Prior to Adjustments for Joint Ventures	840,342	551,711	749,605
Less Gains on Depreciable Property Sales	(192,421)	(13,811)	(169,431)
Less Gains on Depreciable Property Sales - Company's Share of JV	(51,207)	(1,907)	(91)
Less Gains on Land Sales	(9,547)	—	—
Add Acquisition-related Activity	3,093	4,192	1,188
Add Impairment Charges	3,777	—	12,931
Add Loss on Debt Extinguishment	9,433	—	—
Add Severance/Overhead Restructuring Charges	—	2,664	3,407
Core EBITDA, Prior to Adjustments for Joint Ventures	603,470	542,849	597,609
Add Back Gains on Depreciable Property Sales - Company's Share of JV	51,207	1,907	91
Less Equity in Earnings	(54,116)	(4,674)	(4,565)
Company's Share of JV EBITDA	47,567	58,192	53,171
Core EBITDA, Including Share of Joint Ventures	\$ 648,128	\$ 598,274	\$ 646,306

Fixed Charge Coverage Ratio: Our fixed charge coverage ratio is calculated as Core EBITDA, including our share of joint venture EBITDA, divided by fixed charges. Fixed charges include interest expense, including our share of JV interest expense but excluding the non-cash amortization of deferred financing costs, preferred dividends, principal amortization on secured debt and capitalized interest. The Fixed Charge Coverage Ratio for the previous three years is computed as follows (in thousands, except ratios):

	2013	2012	2011
Core EBITDA, Including Share of Joint Ventures	\$ 648,128	\$ 598,274	\$ 646,306
<u>Components of Fixed Charges</u>			
Interest Expense, including discontinued operations	\$ 239,823	\$ 248,263	\$ 267,811
Company's Share of JV Interest Expense	16,767	23,148	19,469
Capitalized Interest	16,756	9,357	4,335
Non-cash Deferred Financing Charges Included in Interest Expense	(12,968)	(13,320)	(14,530)
Interest Costs for Fixed Charge Reporting	260,378	267,448	277,085
Scheduled Principal Payments (normal amortization of secured debt)	17,400	16,992	18,042
Dividends on Preferred Shares	31,616	46,438	60,353
Total Fixed Charges	\$ 309,394	330,878	355,480
Fixed Charge Coverage	2.1	1.8	1.8

Debt Plus Preferred Stock to Core EBITDA: Debt Plus Preferred Stock to Core EBITDA is calculated as net debt (debt minus cash) plus preferred stock divided by Core EBITDA, excluding both share of joint venture debt and share of joint venture EBITDA. Debt Plus Preferred Stock to Core EBITDA for the last two years is calculated as follows (in thousands, except ratios):

	2013	2012
Core EBITDA, Prior to Adjustments for Joint Ventures	\$ 603,470	\$ 542,849
Debt	4,254,376	4,446,170
Preferred Equity	447,683	625,638
Less Cash	(19,275)	(33,889)
	\$ 4,682,784	\$ 5,037,919
Net Debt plus Preferred Equity to Core EBITDA	7.8	9.3

Effective Leverage, Including Preferred Stock: Effective Leverage, Including Preferred Stock is calculated as total debt, including share of joint venture debt, plus total preferred stock divided by total gross assets (total assets plus accumulated depreciation), including joint venture share of total gross assets. Effective Leverage, Including Preferred Stock, for the last two years is calculated as follows (in thousands, except ratios):

	2013	2012
Total Debt	\$ 4,254,376	\$ 4,446,170
Share of JV Debt	303,740	412,894
Preferred Stock	447,683	625,638
	\$ 5,005,799	\$ 5,484,702
Total Assets	\$ 7,752,614	\$ 7,560,101
Share of JV Gross Assets	785,687	916,787
Accumulated Depreciation	1,382,757	1,296,685
	\$ 9,921,058	\$ 9,773,573
Effective Leverage with Preferred Stock	50%	56%

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, LLC
59 Maiden Lane
New York, New York 10038
877.838.2877 or 718.921.8200
www.amstock.com

Investor Relations

Duke Realty Corporation
Attn: Investor Relations
600 East 96th Street, Suite 100
Indianapolis, Indiana 46240
317.808.6060 or 800.875.3366
317.808.6794 (fax)
IR@dukerealty.com
www.dukerealty.com

GENERAL INFORMATION

Duke Realty Corporation's Direct Stock Purchase and Dividend Reinvestment Plan provides shareholders with an opportunity to conveniently acquire the Company's common stock. Shareholders may have all or part of their cash dividends automatically reinvested, and may make optional cash payments toward the purchase of additional shares of common stock. Information regarding the Plan may be obtained from our transfer agent, American Stock Transfer & Trust Company, LLC at www.amstock.com or by calling 877.838.2877.

ELECTRONIC DEPOSIT OF DIVIDENDS

Registered holders of Duke Realty Corporation's common stock may have their quarterly dividends deposited to their checking or savings account free of charge. To sign up for this service, call our transfer agent, American Stock Transfer & Trust Company, LLC at 877.838.2877.

MARKET PRICE AND DIVIDENDS

New York Stock Exchange: DRE

The following table sets forth the high, low and closing sales prices of the Company's common stock for the periods indicated and the dividend paid per share during such period.

2013

Quarter Ended	High	Low	Close	Dividend
December 31	\$ 17.23	\$ 14.18	\$ 15.04	\$ 0.170
September 30	17.56	14.12	15.44	0.170
June 30	18.80	14.29	15.59	0.170
March 31	17.16	13.94	16.98	0.170

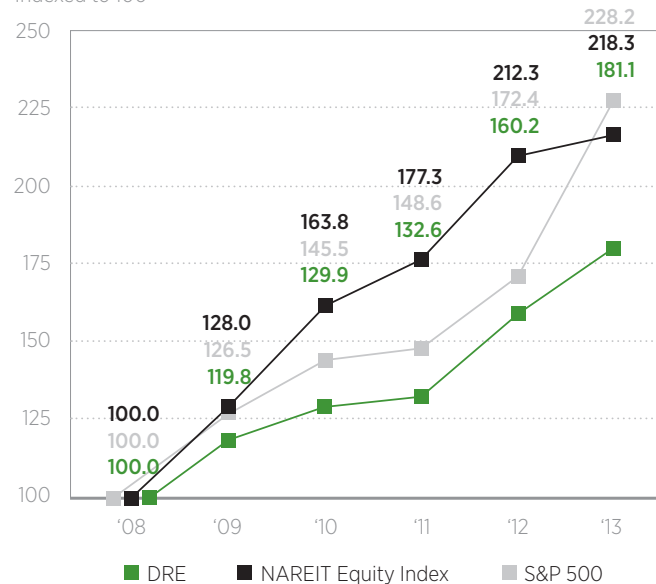
2012

Quarter Ended	High	Low	Close	Dividend
December 31	\$ 15.93	\$ 12.71	\$ 13.87	\$ 0.170
September 30	16.00	13.85	14.70	0.170
June 30	15.31	13.06	14.64	0.170
March 31	14.85	11.85	14.34	0.170

On January 29, 2014, the Company declared a quarterly cash dividend of \$0.17 per share, payable on February 28, 2014 to common shareholders of record on February 4, 2014.

CUMULATIVE TOTAL RETURN

Indexed to 100



HOLDERS OF COMMON STOCK

As of February 20, 2014, there were 7,012 record holders of the Company's common stock.



CELEBRATING 20 YEARS
AS A PUBLICLY TRADED COMPANY



Duke Realty Corporation

600 East 96th Street, Suite 100 | Indianapolis, IN 46240 | 317.808.6000 | dukerealty.com

Mission

Our mission is to build, own, lease and manage industrial, office and healthcare properties with a focus on exceptional customer satisfaction while maximizing shareholder value.

Vision

To continually set the standard for excellence in reliability.