DUKE REALTY CORP
Form 10-Q
May 06, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2010

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission File Number: 1-09044

DUKE REALTY CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Indiana	**35-1740409**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**

600 East 96th Street, Suite 100

Indianapolis, Indiana	**46240**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s Telephone Number, Including Area Code: (317) 808-6000

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

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ¨ No ¨

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): YES ¨ NO x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

Class	**Outstanding at May 3, 2010**
Common Stock, $.01 par value per share	224,318,663 shares

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

DUKE REALTY CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except per share amounts)

	March 31, 2010 (Unaudited)	December 31, 2009
ASSETS		
Real estate investments:		
Land and improvements	$ 1,096,328	$ 1,106,016
Buildings and tenant improvements	5,202,068	5,284,103
Construction in progress	88,485	103,298
Investments in and advances to unconsolidated companies	516,356	501,121
Undeveloped land	655,947	660,723
	7,559,184	7,655,261
Accumulated depreciation	(1,313,671)	(1,311,733)
Net real estate investments	6,245,513	6,343,528
Cash and cash equivalents	30,999	147,322
Accounts receivable, net of allowance of $2,921 and $3,198	20,798	20,604
Straight-line rent receivable, net of allowance of $7,305 and $6,929	133,138	131,934
Receivables on construction contracts, including retentions	40,982	18,755
Deferred financing costs, net of accumulated amortization of $37,673 and $37,577	51,302	54,489
Deferred leasing and other costs, net of accumulated amortization of $237,442 and $240,151	360,702	371,286
Escrow deposits and other assets	208,834	216,361
	$ 7,092,268	$ 7,304,279
LIABILITIES AND EQUITY		
Indebtedness:		
Secured debt	$ 785,769	$ 785,797
Unsecured notes	2,938,688	3,052,465
Unsecured lines of credit	15,876	15,770
	3,740,333	3,854,032
Construction payables and amounts due subcontractors, including retentions	58,568	43,147
Accrued real estate taxes	80,986	84,347
Accrued interest	36,612	62,971
Other accrued expenses	27,733	48,758
Other liabilities	194,901	198,906
Tenant security deposits and prepaid rents	35,947	44,258
Total liabilities	4,175,080	4,336,419
Shareholders equity:		
Preferred shares ($.01 par value); 5,000 shares authorized; 4,067 shares issued and outstanding	1,016,625	1,016,625

Common shares ($.01 par value); 400,000 shares authorized; 224,253 and 224,029 shares issued and outstanding	**2,243**	2,240
Additional paid-in capital	**3,271,517**	3,267,196
Accumulated other comprehensive income (loss)	**(4,906)**	(5,630)
Distributions in excess of net income	**(1,409,048)**	(1,355,086)
Total shareholders equity	**2,876,431**	2,925,345
Noncontrolling interests	**40,757**	42,515
Total equity	**2,917,188**	2,967,860
	$ 7,092,268	$ 7,304,279

See accompanying Notes to Consolidated Financial Statements

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DUKE REALTY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

For the three months ended March 31,

(in thousands, except per share amounts)

(Unaudited)

	2010	2009
Revenues:		
Rental and related revenue	**$ 222,020**	$ 217,285
General contractor and service fee revenue	**113,641**	105,088
	335,661	322,373
Expenses:		
Rental expenses	**53,792**	53,416
Real estate taxes	**30,190**	28,591
General contractor and other services expenses	**107,162**	99,447
Depreciation and amortization	**83,461**	78,986
	274,605	260,440
Other operating activities:		
Equity in earnings of unconsolidated companies	**4,929**	2,527
Gain on sale of properties	**2,069**	
Earnings from sales of land		357
Undeveloped land carrying costs	**(2,251)**	(2,365)
Other expenses	**(277)**	(338)
General and administrative expense	**(13,544)**	(9,880)
	(9,074)	(9,699)
Operating income	**51,982**	52,234
Other income (expenses):		
Interest and other income, net	**151**	123
Interest expense	**(59,021)**	(51,011)
Gain (loss) on debt transactions	**(354)**	33,062
Income (loss) from continuing operations before income taxes	**(7,242)**	34,408
Income tax benefit		2,707
Income (loss) from continuing operations	**(7,242)**	37,115
Discontinued operations:		
Income before gain on sales	**112**	353
Gain on sale of depreciable properties	**9,778**	5,119
Income from discontinued operations	**9,890**	5,472
Net income	**2,648**	42,587
Dividends on preferred shares	**(18,363)**	(18,363)
Net (income) loss attributable to noncontrolling interests	**451**	(977)

Net income (loss) attributable to common shareholders	**$ (15,264)**	$ 23,247
Basic net income (loss) per common share:		
Continuing operations attributable to common shareholders	**$ (0.11)**	$ 0.12
Discontinued operations attributable to common shareholders	**0.04**	0.03
Total	**$ (0.07)**	$ 0.15
Diluted net income (loss) per common share:		
Continuing operations attributable to common shareholders	**$ (0.11)**	$ 0.12
Discontinued operations attributable to common shareholders	**0.04**	0.03
Total	**$ (0.07)**	$ 0.15
Weighted average number of common shares outstanding	**224,153**	148,488
Weighted average number of common shares and potential dilutive securities	**224,153**	155,747

See accompanying Notes to Consolidated Financial Statements

DUKE REALTY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three months ended March 31,

(in thousands)

(Unaudited)

	2010	2009
Cash flows from operating activities:		
Net income	**$ 2,648**	$ 42,587
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of buildings and tenant improvements	**65,973**	63,724
Amortization of deferred leasing and other costs	**18,195**	16,484
Amortization of deferred financing costs	**3,626**	3,407
Straight-line rent adjustment	**(5,863)**	(6,108)
(Gain) loss on debt extinguishment	**354**	(33,062)
Earnings from land and depreciated property sales	**(11,847)**	(5,476)
Build-for-Sale operations, net		(11,470)
Third-party construction contracts, net	**(10,049)**	(652)
Other accrued revenues and expenses, net	**(42,812)**	(28,441)
Operating distributions received in excess of (less than) equity in earnings from unconsolidated companies	**(28)**	7,435
Net cash provided by operating activities	**20,197**	48,428
Cash flows from investing activities:		
Development of real estate investments	**(31,460)**	(85,210)
Acquisition of undeveloped land		(5,474)
Recurring tenant improvements, leasing costs and building improvements	**(21,473)**	(16,208)
Other deferred leasing costs	**(5,498)**	(8,994)
Other assets	**(6,401)**	(23,983)
Proceeds from land and depreciated property sales, net	**108,668**	61,203
Capital distributions from unconsolidated companies	**3,897**	
Capital contributions and advances to unconsolidated companies, net	**(11,883)**	(3,863)
Net cash provided by (used for) investing activities	**35,850**	(82,529)
Cash flows from financing activities:		
Proceeds from issuance of common shares, net		26
Payments on and repurchases of unsecured debt	**(114,736)**	(254,455)
Proceeds from secured debt financings	**2,730**	156,000
Payments on secured indebtedness including principal amortization	**(2,617)**	(2,584)
Borrowings on lines of credit, net	**106**	190,267
Distributions to common shareholders	**(38,122)**	(37,125)
Distributions to preferred shareholders	**(18,363)**	(18,363)
Contributions from (distributions to) noncontrolling interests, net	**(1,246)**	1,871
Deferred financing costs	**(122)**	(1,897)
Net cash provided by (used for) financing activities	**(172,370)**	33,740
Net decrease in cash and cash equivalents	**(116,323)**	(361)

Cash and cash equivalents at beginning of period		**147,322**		22,532
Cash and cash equivalents at end of period	**$**	**30,999**	$	22,171
Non-cash investing and financing activities:				
Contribution of properties to unconsolidated companies	**$**	**7,002**	$	
Conversion of Limited Partner Units to common shares	**$**	**61**	$	85

See accompanying Notes to Consolidated Financial Statements

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DUKE REALTY CORPORATION AND SUBSIDIARIES

Consolidated Statement of Changes in Equity

For the three months ended March 31, 2010

(in thousands, except per share data)

(Unaudited)

		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, 2009	**$ 1,016,625**	**$ 2,240**	**$ 3,267,196**	**$ (5,630)**	**$ (1,355,086)**	**$ 42,515**	**$ 2,967,860**
Comprehensive Income:							
Net income					3,099	(451)	2,648
Derivative instrument activity				724			724
Comprehensive income							3,372
Stock based compensation plan activity		3	4,260		(576)		3,687
Conversion of Limited Partner Units			61			(61)	
Distributions to preferred shareholders					(18,363)		(18,363)
Distributions to common shareholders ($0.17 per share)					(38,122)		(38,122)
Distributions to noncontrolling interests						(1,246)	(1,246)
Balance at March 31, 2010	**$ 1,016,625**	**$ 2,243**	**$ 3,271,517**	**$ (4,906)**	**$ (1,409,048)**	**$ 40,757**	**$ 2,917,188**

See accompanying Notes to Consolidated Financial Statements

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DUKE REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. General Basis of Presentation

The interim consolidated financial statements included herein have been prepared by Duke Realty Corporation (the Company) without audit. The 2009 year-end consolidated balance sheet data included in this Quarterly Report on Form 10-Q (this Report) was derived from our audited financial statements in our Annual Report on Form 10-K for the year ended December 31, 2009, but does not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP). The financial statements have been prepared in accordance with GAAP for interim financial information and in accordance with Rule 10-01 of Regulation S-X of the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenue and expenses during the reporting period. Our actual results could differ from those estimates and assumptions. These financial statements should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations included herein and the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009.

We believe we qualify as a real estate investment trust (REIT) under the provisions of the Internal Revenue Code of 1986, as amended. Substantially all of our Rental Operations (see Note 7) are conducted through Duke Realty Limited Partnership (DRLP). We owned approximately 97.1% of the common partnership interests of DRLP (Units) at March 31, 2010. At the option of the holders, 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 determined to be necessary in order to continue to qualify as a 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 7) through Duke Realty Services LLC, Duke Realty Services Limited Partnership and Duke Construction Limited Partnership, which is owned through a taxable REIT subsidiary. The consolidated financial statements include our accounts and the accounts of our majority-owned or controlled subsidiaries. In this Report, unless the context indicates otherwise, the terms we, us and our refer to the Company and those entities owned or controlled by the Company.

2. New Accounting Pronouncements

Variable Interest Entities

On January 1, 2010, we adopted a new accounting standard that eliminated the primarily quantitative model previously in effect to determine the primary beneficiary of a variable interest entity (VIE) and replaced it with a qualitative model that focuses on which entities have the power to direct the activities of the VIE as well as the obligation or rights to absorb the VIE s losses or receive its benefits. This new standard requires assessments at each reporting period of which party within the VIE is considered the primary beneficiary and also requires a number of new disclosures related to VIEs. The reconsideration of the initial determination of VIE status is still based on the occurrence of certain events. We were not the primary beneficiary of any VIEs at January 1, 2010 and the implementation of this new accounting standard did not have a material impact on our results of operation or financial condition.

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3. Reclassifications

Certain amounts in the accompanying consolidated financial statements for 2009 have been reclassified to conform to the 2010 consolidated financial statement presentation.

4. Indebtedness

The following table summarizes the book value and changes in the fair value of our debt for the three months ended March 31, 2010 (in thousands):

	Book Value at 12/31/09	Book Value at 3/31/10	Fair Value at 12/31/09	Total Realized Losses/(Gains)	Issuances	Payoffs	Adjustments to Fair Value	Fair Value at 3/31/10
Fixed rate secured debt	$ 766,299	$ 763,542	$ 770,255	$	$	$	$ (19,158)	$ 751,097
Variable rate secured debt	19,498	22,227	14,419		2,729		5,079	22,227
Fixed rate unsecured notes	3,052,465	2,938,688	3,042,230	(113)		(114,849)	108,090	3,035,358
Unsecured lines of credit	15,770	15,876	14,714		106		660	15,480
Total	$ 3,854,032	$ 3,740,333	$ 3,841,618	$ (113)	$ 2,835	$ (114,849)	$ 94,671	$ 3,824,162

Fixed Rate Secured Debt

We utilized a discounted cash flow methodology in order to determine the fair value of our fixed rate secured debt. 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 is based upon the rate at which we estimate we could obtain similar borrowings when considering current market conditions. 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, which are unobservable inputs based on an entity s own assumptions in cases in which there is little, if any, market activity.

Fixed Rate Unsecured Debt

In January 2010, we repaid $99.8 million of corporate unsecured debt, which had an effective interest rate of 5.37%, at its scheduled maturity date. During the three-month period ended March 31, 2010, we also repurchased a portion of our 3.75% Exchangeable Senior Notes (the Exchangeable Notes), on the open market, for $14.9 million. The total face value of these repurchases was $15.0 million. We recognized a loss of $354,000 on the repurchases after writing off applicable issuance costs and other accounting adjustments.

We utilized multiple broker estimates in estimating the fair value of our fixed rate unsecured debt. Our unsecured notes are thinly traded and, in many cases, the broker estimates were not based upon comparable transactions. As such, we have determined that our estimation of the fair value of our fixed rate unsecured debt was primarily based upon Level 3 inputs.

The indentures (and related supplemental indentures) governing our outstanding series of notes also require us to comply with financial ratios and other covenants regarding our operations. We were in compliance with all such covenants as of March 31, 2010.

Unsecured Lines of Credit

Our unsecured lines of credit as of March 31, 2010 are described as follows (in thousands):

Description	Borrowing Capacity	Maturity Date	Outstanding Balance at March 31, 2010
Unsecured Line of Credit - DRLP	$ 850,000	February 2013	$
Unsecured Line of Credit - Consolidated Subsidiary	$ 30,000	July 2011	$ 15,876

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The DRLP unsecured line of credit has a borrowing capacity of $850.0 million with an interest rate on borrowings of LIBOR plus 2.75%, and matures in February 2013. Subject to certain conditions, the terms also include an option to increase the facility by up to an additional $200.0 million, for a total of up to $1.05 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 and debt-to-asset value (with asset value being defined in the DRLP unsecured line of credit agreement). As of March 31, 2010, we were in compliance with all covenants under this line of credit.

The consolidated subsidiary s unsecured line of credit allows for borrowings up to $30.0 million at a rate of LIBOR plus ..85% (equal to 1.10% for outstanding borrowings as of March 31, 2010). This unsecured line of credit is used to fund development activities within the consolidated subsidiary and matures in July 2011 with, at our option, a 12-month extension.

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 lines 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 is based upon the rate, considering current market conditions and our specific credit profile, at which we estimate we could obtain similar borrowings. The current market rate we utilized was internally estimated; therefore, we have concluded that our determination of fair value for our unsecured lines of credit was primarily based upon Level 3 inputs.

5. Related Party Transactions

We provide property management, leasing, construction and other tenant related services to unconsolidated companies in which we have equity interests. For the three months ended March 31, 2010 and 2009, respectively, we earned management fees of $2.1 million and $2.1 million, leasing fees of $407,000 and $331,000 and construction and development fees of $1.9 million and $2.6 million from these companies. We recorded these fees based on contractual terms that approximate market rates for these types of services and we have eliminated our ownership percentage of these fees in the consolidated financial statements.

6. 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, 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, limited partnership Units outstanding, as well as any potential dilutive securities for the period.

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The following table reconciles the components of basic and diluted net income (loss) per common share for the three months ended March 31, 2010 and 2009, respectively (in thousands):

	Three Months Ended March 31,	
	2010	2009
Net income (loss) attributable to common shareholders	**$ (15,264)**	$ 23,247
Less: Dividends on share-based awards expected to vest	**(502)**	(515)
Basic net income (loss) attributable to common shareholders	**(15,766)**	22,732
Noncontrolling interest in earnings of common unitholders (1)		1,060
Diluted net income (loss) attributable to common shareholders	**$ (15,766)**	$ 23,792
Weighted average number of common shares outstanding	**224,153**	148,488
Weighted average partnership Units outstanding (1)		6,766
Other potential dilutive shares (2)		493
Weighted average number of common shares and potential dilutive securities	**224,153**	155,747

(1) The partnership Units are anti-dilutive for the three months ended March 31, 2010, as a result of the net loss for such period. Therefore, 6,607 Units (in thousands) are excluded from the weighted average number of common shares and potential dilutive securities for the three months ended March 31, 2010 and $449 noncontrolling interest in earnings of common unitholders (in thousands) is excluded from diluted net loss attributable to common shareholders for the three months ended March 31, 2010.

(2) Excludes (in thousands of shares) 7,729 and 7,259 of anti-dilutive potential shares for the three months ended March 31, 2010 and 2009, respectively, related to stock-based compensation plans. Also excludes (in thousands of shares) the Exchangeable Notes that have 4,647 and 9,053 of anti-dilutive potential shares for the three months ended March 31, 2010 and 2009, respectively.

7. Segment Reporting

We have three reportable operating segments, the first two of which consist of the ownership and rental of office and industrial real estate investments. The operations of our office and industrial properties, along with our medical office and retail properties, are collectively referred to as Rental Operations. Our medical office and retail properties do not meet the quantitative thresholds for separate presentation as reportable segments. The third reportable segment consists of providing various real estate services such as property management, maintenance, leasing, development and construction management to third-party property owners and joint ventures, and is collectively referred to as Service Operations . Our reportable segments offer different products or services and are managed separately because each segment requires different operating strategies and management expertise.

Other revenue consists of other operating revenues not identified with one of our operating segments. Interest expense and other non-property specific revenues and expenses are not allocated to individual segments in determining our performance measure.

We assess and measure our overall operating results based upon an industry performance measure referred to as Funds From Operations (FFO), which management believes is a useful indicator of our consolidated operating performance. FFO is used by industry analysts and investors as a supplemental operating performance measure of a REIT. The National Association of Real Estate Investment Trusts (NAREIT) created FFO as a supplemental measure of REIT operating performance that excludes historical cost depreciation, among other items, from net income determined in accordance with GAAP. FFO is a non-GAAP financial measure. The most comparable GAAP measure is net income (loss) attributable to common shareholders. Consolidated basic 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. We do not allocate certain income and expenses (Non-Segment Items as shown in the table below) to our operating segments. Thus, the operational performance measure presented here on a segment-level basis represents net earnings excluding depreciation expense, as well as excluding the Non-Segment Items not allocated, and is not meant to present FFO as defined by NAREIT.

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

Management believes that the use of consolidated basic FFO attributable to common shareholders, combined with net income (which remains the primary measure of performance), improves the understanding of operating results of REITs among the investing public and makes comparisons of REIT operating results more meaningful. Management believes that, by excluding gains or losses related to sales of previously depreciated real estate assets and excluding real estate asset depreciation and amortization, investors and analysts are able to readily identify the operating results of the long-term assets that form the core of a REIT s activity and assist in comparing these operating results between periods or as compared to different companies.

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The following table shows (i) the revenues for each of the reportable segments and (ii) a reconciliation of consolidated basic FFO attributable to common shareholders to net income (loss) attributable to common shareholders for the three months ended March 31, 2010 and 2009, respectively (in thousands):

	Three Months Ended March 31,	
	2010	2009
Revenues		
Rental Operations:		
Office	**$ 136,630**	$ 140,953
Industrial	**66,891**	64,881
Non-reportable Rental Operations segments	**16,233**	7,901
General contractor and service fee revenue	**113,641**	105,088
Total Segment Revenues	**333,395**	318,823
Other Revenue	**2,266**	3,550
Consolidated Revenue from continuing operations	**335,661**	322,373
Discontinued Operations	**2,239**	5,520
Consolidated Revenue	**$ 337,900**	$ 327,893
Reconciliation of Consolidated Basic Funds From Operations		
Net earnings excluding depreciation and Non-Segment Items		
Office	**$ 76,885**	$ 80,000
Industrial	**48,826**	47,748
Non-reportable Rental Operations segments	**10,578**	4,763
Service Operations	**6,479**	5,641
	142,768	138,152
Non-Segment Items:		
Interest expense	**(59,021)**	(51,011)
Interest and other income	**151**	123
Other expenses	**(277)**	(338)
General and administrative expenses	**(13,544)**	(9,880)
Gain on land sales		357
Undeveloped land carrying costs	**(2,251)**	(2,365)
Gain (loss) on debt transactions	**(354)**	33,062
Income tax benefit		2,707
Other non-segment income	**1,749**	2,767
Net (income) loss attributable to noncontrolling interests	**451**	(977)
Noncontrolling interest share of FFO adjustments	**(2,278)**	(3,761)
Joint venture items	**12,188**	13,745
Dividends on preferred shares	**(18,363)**	(18,363)
Discontinued operations	**819**	1,575
Consolidated basic FFO attributable to common shareholders	**62,038**	105,793
Depreciation and amortization on continuing operations	**(83,461)**	(78,986)
Depreciation and amortization on discontinued operations	**(707)**	(1,222)
Company s share of joint venture adjustments	**(9,563)**	(11,218)
Earnings from depreciated property sales on continuing operations	**2,069**	
Earnings from depreciated property sales on discontinued operations	**9,778**	5,119
Earnings from depreciated property sales share of joint venture	**2,304**	
Noncontrolling interest share of FFO adjustments	**2,278**	3,761

Net income (loss) attributable to common shareholders	**$ (15,264)**	$ 23,247

8. Discontinued Operations

The operations of 15 buildings are currently classified as discontinued operations for the three-month periods ended March 31, 2010 and March 31, 2009. These 15 buildings consist of eleven office, two industrial and two retail properties. Of these properties, nine were sold during the first three months of 2010, five were sold during 2009 and one property, which is immaterial is classified as held-for-sale as of March 31, 2010.

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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 three months ended March 31, 2010 and 2009, respectively (in thousands):

	Three Months Ended March 31,	
	2010	2009
Revenues	**$ 2,239**	$ 5,520
Operating expenses	**(756)**	(2,312)
Depreciation and amortization	**(707)**	(1,222)
Operating income	**776**	1,986
Interest expense	**(664)**	(1,633)
Income before gain on sales	**112**	353
Gain on sale of depreciable properties	**9,778**	5,119
Income from discontinued operations	**$ 9,890**	$ 5,472

The following table illustrates the allocation of the amounts attributable to common shareholders between continuing operations and discontinued operations for the three months ended March 31, 2010 and 2009, respectively (in thousands):

	Three Months Ended March 31,	
	2010	2009
Income (loss) from continuing operations attributable to common shareholders	**$ (24,871)**	$ 18,013
Income from discontinued operations attributable to common shareholders	**9,607**	5,234
Net income (loss) attributable to common shareholders	**$ (15,264)**	$ 23,247

9. Subsequent Events

Declaration of Dividends

Our board of directors declared the following dividends at its regularly scheduled board meeting held on April 28, 2010:

Class	**Quarterly Amount/Share**	**Record Date**	**Payment Date**
Common	$ 0.17	May 17, 2010	May 31, 2010
Preferred (per depositary share):			
Series J	$ 0.414063	May 17, 2010	May 31, 2010
Series K	$ 0.406250	May 17, 2010	May 31, 2010
Series L	$ 0.412500	May 17, 2010	May 31, 2010

Series M	$	0.434375	June 16, 2010	June 30, 2010
Series N	$	0.453125	June 16, 2010	June 30, 2010
Series O	$	0.523438	June 16, 2010	June 30, 2010

On April 1, 2010, we issued $250.0 million of senior unsecured notes that bear interest at 6.75% and mature on March 15, 2020.

During April 2010, pursuant to a cash tender offer, we repurchased unsecured notes from various series for $223.7 million. The unsecured notes had a face value of $212.2 million and, after considering the write-off of applicable issuance costs and other accounting adjustments, we recognized a loss of $14.1 million on the repurchase.

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Item 2. 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, 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. Some of the risks, uncertainties and other important factors that may affect future results include, among others:

Changes in general economic and business conditions, including, without limitation, the continuing impact of the economic down-turn, which is having and may continue to have a negative effect on the fundamentals of our business, the financial condition of our tenants, and the value of our real estate assets;

Our continued qualification as a real estate investment trust, or REIT , for U.S. federal income tax purposes;

Heightened competition for tenants and potential decreases in property occupancy;

Potential increases in real estate construction costs;

Potential changes in the financial markets and interest rates;

Volatility in our stock price and trading volume;

Our continuing ability to raise funds on favorable terms;

Our ability to successfully identify, acquire, develop and/or manage properties on terms that are favorable to us;

Our ability to be flexible in the development and operations of joint venture properties;

Our ability to successfully dispose of properties on terms that are favorable to us;

Inherent risks in the real estate business, including, but not limited to, tenant defaults, potential liability relating to environmental matters and liquidity of real estate investments; and

Other risks and uncertainties described herein, as well as those risks and uncertainties discussed from time to time in our other reports and other public filings with the Securities and Exchange Commission (SEC).

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

This list of risks and uncertainties, however, is only a summary of some of the most important factors and is not intended to be exhaustive. Additional information regarding risk factors that may affect us is included under the caption Risk Factors in Part II, Item 1A of this Report, and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which we filed with the SEC on March 1, 2010. The risk factors contained in our Annual Report are updated by us from time to time in Quarterly Reports on Form 10-Q and other public filings.

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Business Overview

We are a self-administered and self-managed REIT that began operations through a related entity in 1972. A more complete description of our business, and of management s philosophy and priorities, is included in our Annual Report on Form 10-K.

As of March 31, 2010, we:

- Owned or jointly controlled 751 industrial, office, medical office and other properties, of which 745 properties with approximately 132.9 million square feet are in service and six properties with more than 1.4 million square feet are under development. The 745 in-service properties are comprised of 531 consolidated properties with approximately 89.5 million square feet and 214 jointly controlled properties with approximately 43.4 million square feet. The six properties under development consist of three consolidated properties with approximately 463,000 square feet and three jointly controlled properties with more than 957,000 square feet.

- Owned, including through ownership interest in unconsolidated joint ventures, approximately 5,000 acres of land and controlled an additional 1,900 acres through purchase options.

Through our Service Operations reportable segment, which includes our taxable REIT subsidiary, we provide the following services for our properties and for certain properties owned by third parties and joint ventures:

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

Key Performance Indicators

Our operating results depend primarily upon rental income from our industrial, office, medical office and retail properties (collectively referred to as Rental Operations). The following discussion highlights the areas of Rental Operations that we consider critical for future revenues.

Occupancy Analysis: 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 occupancy information regarding our in-service portfolio of consolidated rental properties as of March 31, 2010 and 2009, respectively (in thousands, except percentage data):

	Total Square Feet		Percent of Total Square Feet		Percent Occupied	
Type	**2010**	2009	**2010**	2009	**2010**	2009

Industrial	**56,361**	56,529	**63.0%**	62.9%	**91.4%**	87.6%
Office	**30,400**	31,766	**34.0%**	35.3%	**84.4%**	86.3%
Other (Medical Office and Retail)	**2,720**	1,629	**3.0%**	1.8%	**81.3%**	89.0%
Total	**89,481**	89,924	**100.0%**	100.0%	**88.7%**	87.2%

Lease Expiration and Renewals: Our ability to maintain and improve occupancy rates primarily depends upon our continuing ability to re-lease expiring space. The following table reflects our consolidated in-service portfolio lease expiration schedule by property type as of March 31, 2010. The table indicates square footage and annualized net effective rents (based on March 2010 rental revenue) under expiring leases (in thousands, except percentage data):

Year of Expiration	Total Portfolio Square Feet	Total Portfolio Ann. Rent Revenue	Total Portfolio % of Revenue	Industrial Square Feet	Industrial Ann. Rent Revenue	Office Square Feet	Office Ann. Rent Revenue	Other Square Feet	Other Ann. Rent Revenue
Remainder of 2010	6,126	$ 38,879	7%	4,219	$ 15,814	1,901	$ 22,964	6	$ 101
2011	9,648	67,335	12%	6,632	28,530	2,967	38,134	49	671
2012	8,632	62,703	10%	5,454	22,003	3,111	39,511	67	1,189
2013	11,320	86,112	14%	7,143	27,974	4,125	57,070	52	1,068
2014	8,425	59,639	10%	5,691	22,453	2,573	34,415	161	2,771
2015	8,367	57,036	9%	5,786	23,704	2,570	33,115	11	217
2016	6,080	37,932	6%	4,509	16,100	1,499	20,153	72	1,679
2017	4,647	36,315	6%	3,155	12,972	1,192	16,904	300	6,439
2018	3,268	40,668	7%	1,305	6,625	1,388	20,479	575	13,564
2019	2,572	35,822	6%	623	3,350	1,652	25,020	297	7,452
2020 and Thereafter	10,284	85,475	13%	6,996	29,261	2,668	41,868	620	14,346
Total Leased	79,369	$ 607,916	100%	51,513	$ 208,786	25,646	$ 349,633	2,210	$ 49,497
Total Portfolio Square Feet	89,481			56,361		30,400		2,720	
Percent Occupied	88.7%			91.4%		84.4%		81.3%	

Within our consolidated properties, we renewed 86.0% and 78.6% of our leases up for renewal in the three months ended March 31, 2010 and 2009, respectively, totaling approximately 2.1 million and 1.7 million square feet, respectively. There was a 1% decline and 4% growth, respectively, in average contractual rents on these renewals in the three-month periods ended March 31, 2010 and 2009.

The average term of renewals increased from 5.7 years in the three months ended March 31, 2009 to 7.6 years in the three months ended March 31, 2010.

Recent and Future Development:

We had 1.4 million square feet of property under development with total estimated costs upon completion of $422.1 million at March 31, 2010 compared to 4.0 million square feet with total costs of $744.0 million at March 31, 2009. The overall decrease in properties under development is the result of placing projects in service while limiting new developments. The square footage and estimated costs include both consolidated and joint venture development activity at 100%.

The following table summarizes our properties under development as of March 31, 2010 (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	463	99%	$ 95,456	$ 78,309	$ 17,147
Joint venture properties	957	52%	326,594	141,302	185,292
Total	1,420	67%	$ 422,050	$ 219,611	$ 202,439

Acquisition and Disposition Activity: Gross sales proceeds related to the dispositions of wholly owned undeveloped land and buildings totaled $115.9 million and $62.3 million for the three months ended March 31, 2010 and 2009, respectively. Proceeds from the first quarter of 2010 include $28.2 million from the sale of three buildings to a joint venture in which we have a 20% equity interest. Our share of proceeds from sales of properties within unconsolidated joint ventures in which we have less than a 100% interest totaled $4.7 million for the three months ended March 31, 2010. We had no such dispositions in the same period in 2009.

For the three months ended March 31, 2010 and 2009, we had no acquisitions of income producing properties. We acquired no undeveloped land in the three months ended March 31, 2010, compared to $6.2 million in the same period in 2009.

In the first quarter of 2010, one of our unconsolidated joint ventures, in which we have a 20% equity interest, acquired two properties from our partner in the venture for $42.3 million. We contributed $8.6 million to the joint venture for our share of the acquisition.

Funds From Operations

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

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

Management believes that the use of consolidated basic FFO attributable to common shareholders, combined with net income (which remains the primary measure of performance), improves the understanding of operating results of REITs among the investing public and makes comparisons of REIT operating results more meaningful. Management believes that, by excluding gains or losses related to sales of previously depreciated real estate assets and excluding real estate asset depreciation and amortization, investors and analysts are able to readily identify the operating results of the long-term assets that form the core of a REIT s activity and assist in comparing these operating results between periods or as compared to different companies.

The following table shows a reconciliation of net income (loss) attributable to common shareholders to the calculation of consolidated basic FFO attributable to common shareholders for the three months ended March 31, 2010 and 2009, respectively (in thousands):

	Three Months Ended March 31,	
	2010	2009
Net income (loss) attributable to common shareholders	**$ (15,264)**	$ 23,247
Adjustments:		
Depreciation and amortization	**84,168**	80,208
Company share of joint venture depreciation and amortization	**9,563**	11,218
Earnings from depreciable property sales wholly owned	**(11,847)**	(5,119)
Earnings from depreciable property sales share of joint venture	**(2,304)**	
Noncontrolling interest share of adjustments	**(2,278)**	(3,761)
Consolidated basic Funds From Operations attributable to common shareholders	**$ 62,038**	$ 105,793

Results of Operations

A summary of our operating results and property statistics for the three months ended March 31, 2010 and 2009, respectively, is as follows (in thousands, except number of properties and per share data):

	Three Months Ended March 31,	
	2010	2009
Rental and related revenue	**$ 222,020**	$ 217,285
General contractor and service fee revenue	**113,641**	105,088
Operating income	**51,982**	52,234
Net income (loss) attributable to common shareholders	**(15,264)**	23,247
Weighted average common shares outstanding	**224,153**	148,488
Weighted average common shares and potential dilutive securities	**224,153**	155,747
Basic income (loss) per common share:		
Continuing operations	**$ (0.11)**	$ 0.12
Discontinued operations	**$ 0.04**	$ 0.03
Diluted income (loss) per common share:		
Continuing operations	**$ (0.11)**	$ 0.12
Discontinued operations	**$ 0.04**	$ 0.03
Number of in-service consolidated properties at end of period	**531**	538
In-service consolidated square footage at end of period	**89,481**	89,924
Number of in-service joint venture properties at end of period	**214**	204
In-service joint venture square footage at end of period	**43,384**	40,943

Comparison of Three Months Ended March 31, 2010 to Three Months Ended March 31, 2009

Rental and Related Revenue

Overall, rental and related revenue from continuing operations increased from $217.3 million for the quarter ended March 31, 2009 to $222.0 million for the same period in 2010. The following table sets forth rental and related revenue from continuing operations by reportable segment for the three months ended March 31, 2010 and 2009, respectively (in thousands):

	2010	2009
Rental and Related Revenue:		
Office	**$ 136,630**	$ 140,953
Industrial	**66,891**	64,881
Non-reportable segments	**18,499**	11,451
Total	**$ 222,020**	$ 217,285

The following factors contributed to these results:

We acquired or consolidated five properties and placed 16 developments in service from January 1, 2009 to March 31, 2010 that provided incremental revenues of $10.5 million in the first quarter of 2010, as compared to the same period in 2009.

Lease termination fees, to the extent they are included in rental revenue from continuing operations, increased from $275,000 in the first quarter of 2009 to $1.6 million in the first quarter of 2010.

We contributed five properties to an unconsolidated joint venture in 2009, resulting in a $1.7 million reduction in rental and related revenues for the three months ended March 31, 2010, as compared to the same period in 2009.

Decreases in rental rates and occupancy in certain of our existing properties, resulting from the economy s impact on the leasing environment, partially offset the above-mentioned items.

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Rental Expenses and Real Estate Taxes

The following table sets forth rental expenses and real estate taxes by reportable segment for the three months ended March 31, 2010 and 2009, respectively (in thousands):

	2010	2009
Rental Expenses:		
Office	**$ 40,617**	$ 42,171
Industrial	**8,687**	8,277
Non-reportable segments	**4,488**	2,968
Total	**$ 53,792**	$ 53,416
Real Estate Taxes:		
Office	**$ 19,128**	$ 18,782
Industrial	**9,378**	8,856
Non-reportable segments	**1,684**	953
Total	**$ 30,190**	$ 28,591

Overall, rental expenses increased by $376,000 in the first quarter of 2010, compared to the same period in 2009. The increase was primarily driven by $2.0 million of incremental costs associated with properties acquired or consolidated and developments placed in service from January 1, 2009 to March 31, 2010. Somewhat offsetting this increase was a reduction in rental expenses of $661,000 related to eight properties that were sold in 2009, or the first quarter of 2010, but did not meet the criteria for classification as discontinued operations. The increase was also partially offset by a decrease of $1.0 million in rental expenses in our office properties primarily related to a reduction in repairs incurred in the first quarter of 2010 compared to the same period in 2009.

Of the overall $1.6 million increase in real estate taxes in the first quarter of 2010, compared to the same period in 2009, $986,000 was attributable to properties acquired or consolidated and developments placed in service from January 1, 2009 to March 31, 2010. The remaining increase was driven by increases in taxes on our existing properties.

Service Operations

The following table sets forth the components of the Service Operations reportable segment for the three months ended March 31, 2010 and 2009, respectively (in thousands):

	2010	2009
Service Operations:		
General contractor and service fee revenue	**$ 113,641**	$ 105,088
General contractor and other services expenses	**(107,162)**	(99,447)
Total	**$ 6,479**	$ 5,641

Service Operations primarily consist of the leasing, 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 slight increase in earnings from Service Operations was largely driven by increased third-party construction activity in the first quarter of 2010 as compared to the same period in 2009.

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Depreciation and Amortization

Depreciation and amortization expense increased from $79.0 million during the first quarter of 2009 to $83.5 million for the same period in 2010 primarily due to increases in our asset base from properties acquired, consolidated or placed in service during 2009 and 2010.

Equity in Earnings of Unconsolidated Companies

Equity in earnings represents our ownership share of net income or loss from investments in unconsolidated companies that generally own and operate rental properties and develop properties for sale. These earnings increased from $2.5 million in the three months ended March 31, 2009 to $4.9 million for the same period in 2010. This increase was primarily a result of the sale of our 20% interest in one of our unconsolidated joint ventures in the first quarter of 2010, which resulted in a $1.8 million gain. Also contributing to the increase was the sale of a property from an unconsolidated subsidiary during the first three months of 2010, with our share of the gain approximating $523,000, compared to no such sales for the same period in 2009.

General and Administrative Expense

General and administrative expenses increased from $9.9 million for the three months ended March 31, 2009 to $13.5 million for the same period in 2010. 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 the development or operations of our owned properties and Service Operations. Those indirect costs not allocated to or absorbed by these operations are charged to general and administrative expenses. The increase in general and administrative expenses is largely the result of an approximate $4.1 million decrease in absorption of indirect overhead costs. Fewer costs were allocated to leasing and construction in the first quarter of 2010 as a result of less activity in those areas when compared to the same period in 2009.

Our total overhead costs were relatively consistent between periods. First quarter 2010 results included reduced salaries, severance and related costs, which resulted from workforce reductions during 2009. The reduced salary and related costs were offset by an increase in stock based compensation expense from the first quarter of 2009 that was driven by the grant of the 2009 annual award being delayed until the second quarter of 2009, compared to the 2010 annual award being granted in the first quarter of 2010.

Interest Expense

Interest expense increased from $51.0 million in the first quarter of 2009 to $59.0 million in the first quarter of 2010. The increase was the result of a $3.7 million decrease in capitalization of interest costs due to reduced development activity as well as an overall increase to interest cost that resulted from a higher weighted average borrowing rate on our outstanding debt in the first quarter of 2010 when compared to the first quarter of 2009.

Gain (Loss) on Debt Transactions

During the first quarter of 2010, through an open market transaction, we paid $14.9 million to repurchase a portion of our outstanding 3.75% Exchangeable Senior Notes (the Exchangeable Notes) with a face value of $15.0 million. We recognized a $354,000 loss on repurchase after considering the write-off of unamortized deferred financing costs and discounts.

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During the first quarter of 2009, we repurchased certain of our outstanding series of unsecured notes scheduled to mature in 2009 through 2011. The majority of our debt repurchases during this period consisted of our Exchangeable Notes. In total, we paid $130.5 million for unsecured notes that had a face value of $169.5 million, recognizing a net gain on extinguishment of $33.1 million after considering the write-off of unamortized deferred financing costs and discounts.

Income Taxes

We recognized an income tax benefit of $2.7 million for the three months ended March 31, 2009, compared to no income tax benefit or expense for the same period in 2010. As a result of our projections of future taxable income, we recorded a full valuation allowance on the deferred tax assets generated by our taxable REIT subsidiary in 2010.

Discontinued Operations

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 properties.

The operations of 15 buildings are classified as discontinued operations for the three months ended March 31, 2010 and March 31, 2009. These 15 buildings consist of eleven office, two industrial and two retail properties. As a result, we classified income, before gain on sales, of $112,000 and $353,000 in discontinued operations for the three months ended March 31, 2010 and 2009, respectively.

Of these properties, nine were sold during the first quarter of 2010 and two were sold during the first quarter of 2009. The $9.8 million and $5.1 million gains on disposal of these properties for the three months ended March 31, 2010 and 2009, respectively, are also reported in discontinued operations.

Liquidity and Capital Resources

Sources of Liquidity

We expect to meet our short-term liquidity requirements over the next twelve months, including payments of dividends and distributions, as well as the recurring 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. Additionally, we have no outstanding borrowings on DRLP s $850.0 million unsecured line of credit at March 31, 2010, which allows us significant additional flexibility for temporary financing of either short-term obligations or strategic acquisitions.

We expect to meet long-term liquidity requirements, such as scheduled mortgage and unsecured debt maturities, property acquisitions, financing of development activities and other non-recurring capital improvements, through multiple sources of capital including accessing the public debt and equity markets.

Rental Operations

We believe our principal source of liquidity, cash flows from Rental Operations, provides a stable source of cash to fund operational expenses. We believe 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 as a result of current economic conditions, including reduced occupancy, tenant defaults and bankruptcies, and potential reduction in rental rates upon renewal or re-letting of properties, each of which would result in reduced cash flow from operations.

Unsecured Debt and Equity Securities

We have historically used the DRLP unsecured line of credit to fund development activities, acquire additional rental properties and provide working capital.

The indentures (and related supplemental indentures) governing our outstanding series of unsecured notes require us to comply with financial ratios and other covenants regarding our operations. We were in compliance with all such covenants, as well as applicable covenants under our unsecured line of credit, as of March 31, 2010.

At March 31, 2010, 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.

At March 31, 2010, we have a prospectus supplement on file with the SEC that allows us to issue new shares of our common stock, from time to time, with an aggregate offering price of up to $150.0 million. No new shares have yet been issued under this prospectus supplement.

Sale of Real Estate Assets

We pursue opportunities to sell non-strategic real estate assets in order to generate additional liquidity. Our ability to dispose of such properties is dependent on the availability of credit to potential buyers. In light of recent market and economic conditions, including, without limitation, the availability and cost of credit, the U.S. mortgage market, and condition of the equity and real estate markets, we may be unable to dispose of such properties quickly, or on favorable terms.

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 an unconsolidated entity, while retaining a continuing interest in that entity, and receive proceeds commensurate to the interest that we do not own. Additionally, unconsolidated entities will from time to time obtain debt financing and will distribute to us, and our partners, all or a portion of the proceeds.

We have a 20% equity interest in an unconsolidated joint venture that may acquire up to $800.0 million of our newly developed build-to-suit projects over the three-year period from its formation in May 2008. Properties are sold to the joint venture upon completion, lease commencement and satisfaction of other customary conditions. We received net proceeds of $334.1 million, through December 31, 2009, related to the joint venture s acquisition of 12 of our properties. During the three months ended March 31, 2010, the joint venture acquired three additional properties from us and we received net proceeds, commensurate to our partner s ownership interest, of $28.1 million.

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Uses of Liquidity

Our principal uses of liquidity include the following:

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

Property Investment

We evaluate development and acquisition opportunities based upon market outlook, supply and long-term growth potential. Our ability to make future property investments is dependent upon our continued access to our longer-term sources of liquidity including the issuances of debt or equity securities as well as disposing of selected properties. In light of current economic conditions, management continues to evaluate our investment priorities and is focused on accretive growth.

Recurring Expenditures

One of the principal uses of our liquidity is to fund the recurring leasing/capital expenditures of our real estate investments. The following is a summary of our recurring capital expenditures for the three months ended March 31, 2010 and 2009, respectively (in thousands):

	2010	2009
Recurring tenant improvements	**$ 9,975**	$ 6,506
Recurring leasing costs	**10,928**	8,492
Building improvements	**570**	1,210
Totals	**$ 21,473**	$ 16,208

Dividend and Distribution Requirements

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. Because depreciation and impairments are non-cash expenses, cash flow will typically be greater than operating income. We paid distributions of $0.17 per common share in the first quarter of 2010 and our board of directors declared dividends of $0.17 per share for the second quarter of 2010. Our future distributions will be declared at the discretion of our board of directors and will be subject to our future capital needs and availability.

At March 31, 2010, we had six series of preferred stock outstanding. The annual dividend rates on our preferred shares range between 6.5% and 8.375% and are paid in arrears quarterly.

Debt Maturities

Debt outstanding at March 31, 2010 had a face value totaling $3.7 billion with a weighted average interest rate of 6.39% and matures at various dates through 2028. We had $2.9 billion of unsecured debt, $15.9 million outstanding on a consolidated subsidiary s unsecured line of credit and $784.8 million of secured debt outstanding at March 31, 2010. Scheduled principal amortization, repurchases and maturities of such debt totaled $117.5 million for the three months ended March 31, 2010.

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The following is a summary of the scheduled future amortization and maturities of our indebtedness at March 31, 2010 (in thousands, except percentage data):

	Future Repayments			Weighted Average
Year	Scheduled Amortization	Maturities	Total	Interest Rate of Future Repayments
Remainder of 2010	$ 8,839	$	$ 8,839	6.36%
2011	11,621	596,590	608,211	5.33%
2012	9,767	215,864	225,631	5.83%
2013	9,819	475,000	484,819	6.49%
2014	10,113	272,112	282,225	6.43%
2015	8,785	250,000	258,785	7.45%
2016	7,994	490,900	498,894	6.16%
2017	6,508	469,324	475,832	5.94%
2018	4,671	300,000	304,671	6.08%
2019	3,463	518,438	521,901	7.98%
2020	3,234		3,234	5.52%
Thereafter	21,205	50,000	71,205	6.80%
	$ 106,019	$ 3,638,228	$ 3,744,247	6.39%

We anticipate generating capital to fund our debt maturities by using undistributed cash generated from rental operations and property dispositions, as well as by raising additional capital from future debt or equity transactions.

On April 1, 2010, we issued $250.0 million of senior unsecured notes that bear interest at 6.75% and mature on March 15, 2020. We utilized $223.7 million of the proceeds, pursuant to a cash tender offer, to repurchase unsecured notes maturing in 2011 and 2013 that had a face value of $212.2 million.

Repurchases of Outstanding Debt

During the first three months of 2010, through an open market transaction, we paid $14.9 million to repurchase outstanding unsecured notes with a face value of $15.0 million.

Historical Cash Flows

Cash and cash equivalents were $31.0 million and $22.2 million at March 31, 2010 and 2009, respectively. The following highlights significant changes in net cash associated with our operating, investing and financing activities (in millions):

	Three Months Ended March 31,	
	2010	2009
Net Cash Provided by Operating Activities	**$ 20.2**	$ 48.4
Net Cash Provided by (Used for) Investing Activities	**$ 35.9**	$ (82.5)
Net Cash Provided by (Used for) Financing Activities	**$ (172.4)**	$ 33.7

Operating Activities

The receipt of rental income from Rental Operations continues to be our primary source of operating cash flows. For the three months ended March 31, 2010, cash provided by operating activities was $20.2 million compared to $48.4 million for the same period in 2009. The decrease in cash provided from operating activities is primarily a result of changes in operating asset and liability balances, in addition to a decrease in net operating income in the first quarter of 2010 as compared to the same period in 2009.

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Investing Activities

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

Held-for-rental development costs decreased to $31.5 million for the three-month period ended March 31, 2010 from $85.2 million for the same period in 2009, primarily as a result of a planned reduction in new development.

Sales of land and depreciated property provided $108.7 million in net proceeds for the three-month period ended March 31, 2010 compared to $61.2 million for the same period in 2009.

During the first three months of 2010, we had no acquisitions of property or undeveloped land, compared to a net cash outflow of $5.5 million for acquisitions of undeveloped land in the same period in 2009.

Financing Activities

The following items highlight major fluctuations in net cash flow related to financing activities in the first three months of 2010 compared to the same period in 2009:

In January 2010, we repaid $99.8 million of senior unsecured notes with an effective interest rate of 5.37% on their scheduled maturity date. This compares to repayments of $124.0 million of corporate unsecured debt with an effective interest rate of 6.83% on its scheduled maturity date in February 2009.

During the first quarter of 2010, through an open market transaction, we paid $14.9 million to repurchase a portion of our outstanding Exchangeable Notes with a face value of $15.0 million. Throughout the same period in 2009, we repurchased certain of our outstanding series of unsecured notes maturing in 2009 through 2011. In total, cash payments of $130.5 million were made in the first quarter of 2009 to repurchase notes with a face value of $169.5 million.

In February and March 2009, we received cash proceeds of $156.0 million from two 10-year secured debt financings that are secured by 22 existing rental properties. The secured debt bears interest at a weighted average rate of 7.6% and matures at various points in 2019.

We had no net change in borrowings on DRLP s $850.0 million unsecured line of credit for the three months ended March 31, 2010, compared to an increase of $186.0 million for the same period in 2009. We have no outstanding borrowings on the DRLP line of credit at March 31, 2010.

Contractual Obligations

Aside from changes in long-term debt, there have not been material changes in our outstanding commitments since December 31, 2009 as previously discussed in our 2009 Annual Report on Form 10-K. In most cases we may withdraw from land purchase contracts with the sellers only recourse being earnest money deposits already made.

Off Balance Sheet Arrangements - Investments in Unconsolidated Companies

We analyze our investments in joint ventures to determine if the joint venture is a variable interest entity (a VIE) and would require consolidation. We (a) evaluate the sufficiency of the total equity investment at risk, (b) 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 (c) establish whether activities within the venture are on behalf of an investor with disproportionately few voting rights in making this VIE determination. We would consolidate a venture that is determined to be a VIE if we were 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.

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We have equity interests in unconsolidated partnerships and joint ventures that own and operate rental properties and hold land for development. Our unconsolidated subsidiaries are primarily engaged in the operation and development of industrial, office and medical office real estate properties. These investments provide us with increased market share and tenant and property diversification. The equity method of accounting is used for these investments in which we have the ability to exercise significant influence, but not control, over operating and financial policies. As a result, the assets and liabilities of these joint ventures are not included on our balance sheet. Our investments in and advances to unconsolidated companies represented approximately 7% of our total assets as of both March 31, 2010 and December 31, 2009. Total assets of our unconsolidated subsidiaries were $2.7 billion and $2.6 billion as of March 31, 2010 and December 31, 2009, respectively. The combined revenues of our unconsolidated subsidiaries totaled $70.1 million and $68.7 million for the three-month periods ended March 31, 2010 and 2009, respectively.

We have guaranteed the repayment of certain secured and unsecured loans of our unconsolidated subsidiaries and the outstanding balances on the guaranteed portion of these loans was $403.0 million at March 31, 2010.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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 control 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. Our two outstanding swaps, which fixed the rates on two of our variable rate loans, were not significant to our Financial Statements in terms of notional amount or fair value at March 31, 2010.

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.

	Remainder of 2010	2011	2012	2013	2014	Thereafter	Total	Fair Value
Fixed rate secured debt	$ 8,089	$ 22,975	$ 10,154	$ 8,939	$ 31,290	$ 681,122	$ 762,569	$ 751,097
Weighted average interest rate	6.91%	7.16%	6.76%	6.61%	7.44%	6.62%		
Variable rate secured debt	$ 750	$ 785	$ 15,477	$ 880	$ 935	$ 3,400	$ 22,227	$ 22,227
Weighted average interest rate	0.40%	0.40%	4.75%	0.41%	0.42%	0.28%		
Fixed rate unsecured notes	$	$ 568,575	$ 200,000	$ 475,000	$ 250,000	$ 1,450,000	$ 2,943,575	$ 3,035,358
Weighted average interest rate	N/A	5.38%	5.87%	6.50%	6.33%	6.79%		
Unsecured lines of credit	$	$ 15,876	$	$	$	$	$ 15,876	$ 15,480
Rate at March 31, 2010	N/A	1.10%	N/A	N/A	N/A	N/A		

As the table incorporates only those exposures that exist as of March 31, 2010, it does not consider those exposures or positions that could arise after that date. As a result, our ultimate realized gain or loss with respect to interest rate fluctuations will depend on the exposures that arise during the period, our hedging strategies at that time to the extent we are party to interest rate derivatives, and interest rates. Interest expense on our unsecured lines of credit will be affected by fluctuations in the 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 lines of credit will be heavily dependent upon the state of the credit environment.

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Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. These disclosure controls and procedures are further designed to ensure that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based upon the foregoing, the Chief Executive Officer and the Chief Financial Officer concluded that, as of the end of the period covered by this Report, our disclosure controls and procedures are effective in all material respects.

(b) Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

From time to time, we are parties to a variety of legal proceedings and claims arising in the ordinary course of our businesses. While these matters generally are covered by insurance, there is no assurance that our insurance will cover any particular proceeding or claim. We presently believe that all of these proceedings to which we were subject as of March 31, 2010, taken as a whole, will not have a material adverse effect on our liquidity, business, financial condition or results of operations.

Item 1A. Risk Factors

In addition to the information set forth in this Report, you also should carefully review and consider the information contained in our other reports and periodic filings that we make with the SEC, including, without limitation the information contained under the caption Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009. The risks and uncertainties described in our 2009 Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us, or that we presently deem to be immaterial, also may materially adversely affect our business, financial condition and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Unregistered Sales of Equity Securities

None

(b) Use of Proceeds

None

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(c) Issuer Purchases of Equity Securities

From time to time, we repurchase our securities under a repurchase program that initially was approved by the board of directors and publicly announced in October 2001 (the Repurchase Program). On April 28, 2010, the board of directors adopted a resolution that amended and restated the Repurchase Program and delegated authority to management to repurchase a maximum of $75.0 million of common shares, $250.0 million of debt securities and $75.0 million of preferred shares (the April 2010 Resolution). The April 2010 Resolution will expire on April 27, 2011. Under the Repurchase Program, we also execute share repurchases on an ongoing basis associated with certain employee elections under our compensation and benefit programs.

The following table shows the share repurchase activity for each of the three months in the quarter ended March 31, 2010:

Month	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs
January	6,195	$ 12.73	6,195
February	22,008	$ 11.03	22,008
March	4,918	$ 11.94	4,918
Total	33,121	$ 11.48	33,121

(1) All 33,121 shares repurchased represent common shares repurchased under our Employee Stock Purchase Plan.

Item 3. Defaults upon Senior Securities

During the period covered by this Report, we did not default under the terms of any of our material indebtedness, nor has there been any material arrearage of dividends or other material uncured delinquency with respect to any class of our preferred shares.

Item 4. Reserved

Item 5. Other Information

During the period covered by this Report, there was no information required to be disclosed by us in a Current Report on Form 8-K that was not so reported, nor were there any material changes to the procedures by which our security holders may recommend nominees to our board of directors.

Item 6. Exhibits

(a) Exhibits

3.1(i) Fourth Amended and Restated Articles of Incorporation of Duke Realty Corporation (filed as Exhibit 3.1 to the Company s Current Report on Form 8-K as filed with the SEC on July 30, 2009, File No. 001-09044, and incorporated herein by this reference).

3.2(i)	Fourth Amended and Restated Bylaws of Duke Realty Corporation (filed as Exhibit 3.2 to the Company s Current Report on Form 8-K as filed with the SEC on July 30, 2009, File No. 001-09044, and incorporated herein by this reference).
10.1	Fourth Amended and Restated Agreement of Limited Partnership of DRLP (filed as Exhibit 3.1 to DRLP s Current Report on Form 8-K, as filed with the SEC on November 3, 2009, File No. 000-20625, and incorporated herein by this reference).

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10.2	2009 Amendment to the Duke Realty Corporation Amended and Restated 2005 Long-Term Incentive Plan. # *
10.3	2010 Amendment to the Duke Realty Corporation Amended and Restated 2005 Long-Term Incentive Plan (filed as Exhibit 10.1 to the Company s Current Report on Form 8-K as filed with the SEC on May 4, 2010, File No. 001-09044, and incorporated herein by this reference). #
10.4	Amendment Eleven to the 1995 Key Employees Stock Option Plan of Duke Realty Investments, Inc. (filed as Exhibit 10.2 to the Company s Current Report on Form 8-K as filed with the SEC on May 4, 2010, File No. 001-09044, and incorporated herein by this reference). #
11.1	Statement Regarding Computation of Earnings.***
12.1	Statement of Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Combined Fixed Charges and Preferred Dividends.*
31.1	Rule 13a-14(a) Certification of the Chief Executive Officer.*
31.2	Rule 13a-14(a) Certification of the Chief Financial Officer.*
32.1	Section 1350 Certification of the Chief Executive Officer.**
32.2	Section 1350 Certification of the Chief Financial Officer.**

Represents management contract or compensatory plan or arrangement.

* Filed herewith.

** The certifications attached as Exhibits 32.1 and 32.2 accompany this Quarterly Report on Form 10-Q and are furnished to the Securities and Exchange Commission pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

*** Data required by Statement of Financial Accounting Standard No.128, *Earnings per Share*, is provided in Note 6 to the Consolidated Financial Statements included in this report.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DUKE REALTY CORPORATION

Date: May 6, 2010

/s/ Dennis D. Oklak
Dennis D. Oklak
Chairman and Chief Executive Officer

/s/ Christie B. Kelly
Christie B. Kelly
Executive Vice President and
Chief Financial Officer