

Edgar Filing: DUKE REALTY CORP - Form 10-Q

DUKE REALTY CORP

Form 10-Q

October 31, 2018

falsefalse--12-31--12-31Q3Q3201820182018-09-302018-09-3010-Q0000783280YesYesLarge Accelerated

FilerNon-accelerated

FilerNoYes2094510002094510002112120002112120005254000525400046280004628000170900017090004580004580000.6

were in compliance with all financial covenants under this line of credit. 0000783280 2018-01-01 2018-09-30  
0000783280 2018-09-30 0000783280 2018-10-26 0000783280 dre:DukeRealtyLimitedPartnershipMember  
2018-01-01 2018-09-30 0000783280 2017-12-31 0000783280 us-gaap:SecuredDebtMember 2017-12-31 0000783280  
us-gaap:SecuredDebtMember 2018-09-30 0000783280 us-gaap:UnsecuredDebtMember 2017-12-31 0000783280  
us-gaap:UnsecuredDebtMember 2018-09-30 0000783280 2017-07-01 2017-09-30 0000783280 2018-07-01  
2018-09-30 0000783280 2017-01-01 2017-09-30 0000783280 2016-12-31 0000783280 2017-09-30 0000783280  
2017-04-01 2017-06-30 0000783280 us-gaap:NoncontrollingInterestMember 2018-01-01 2018-09-30 0000783280  
us-gaap:AdditionalPaidInCapitalMember 2017-12-31 0000783280 us-gaap:AdditionalPaidInCapitalMember  
2018-01-01 2018-09-30 0000783280 us-gaap:AccumulatedDistributionsInExcessOfNetIncomeMember 2018-01-01  
2018-09-30 0000783280 us-gaap:CommonStockMember 2018-01-01 2018-09-30 0000783280  
us-gaap:AccumulatedDistributionsInExcessOfNetIncomeMember 2018-09-30 0000783280  
us-gaap:CommonStockMember 2017-12-31 0000783280 us-gaap:AdditionalPaidInCapitalMember 2018-09-30  
0000783280 us-gaap:NoncontrollingInterestMember 2018-09-30 0000783280 us-gaap:NoncontrollingInterestMember  
2017-12-31 0000783280 us-gaap:CommonStockMember 2018-09-30 0000783280  
us-gaap:AccumulatedDistributionsInExcessOfNetIncomeMember 2017-12-31 0000783280  
dre:DukeRealtyLimitedPartnershipMember 2018-09-30 0000783280 dre:DukeRealtyLimitedPartnershipMember  
2017-12-31 0000783280 dre:DukeRealtyLimitedPartnershipMember us-gaap:SecuredDebtMember 2017-12-31  
0000783280 dre:DukeRealtyLimitedPartnershipMember us-gaap:UnsecuredDebtMember 2018-09-30 0000783280  
dre:DukeRealtyLimitedPartnershipMember us-gaap:UnsecuredDebtMember 2017-12-31 0000783280  
dre:DukeRealtyLimitedPartnershipMember us-gaap:SecuredDebtMember 2018-09-30 0000783280  
dre:DukeRealtyLimitedPartnershipMember 2017-01-01 2017-09-30 0000783280  
dre:DukeRealtyLimitedPartnershipMember 2018-07-01 2018-09-30 0000783280  
dre:DukeRealtyLimitedPartnershipMember 2017-07-01 2017-09-30 0000783280  
dre:DukeRealtyLimitedPartnershipMember 2017-09-30 0000783280 dre:DukeRealtyLimitedPartnershipMember  
2016-12-31 0000783280 dre:DukeRealtyLimitedPartnershipMember dre:PartnersEquityTotalMember 2018-01-01  
2018-09-30 0000783280 dre:DukeRealtyLimitedPartnershipMember us-gaap:CommonStockMember 2018-01-01  
2018-09-30 0000783280 dre:DukeRealtyLimitedPartnershipMember us-gaap:NoncontrollingInterestMember  
2017-12-31 0000783280 dre:DukeRealtyLimitedPartnershipMember us-gaap:NoncontrollingInterestMember  
2018-09-30 0000783280 dre:DukeRealtyLimitedPartnershipMember dre:LimitedPartnersCommonEquityMember  
2018-09-30 0000783280 dre:DukeRealtyLimitedPartnershipMember dre:PartnersEquityTotalMember 2018-09-30  
0000783280 dre:DukeRealtyLimitedPartnershipMember dre:LimitedPartnersCommonEquityMember 2017-12-31  
0000783280 dre:DukeRealtyLimitedPartnershipMember dre:LimitedPartnersCommonEquityMember 2018-01-01  
2018-09-30 0000783280 dre:DukeRealtyLimitedPartnershipMember us-gaap:CommonStockMember 2017-12-31  
0000783280 dre:DukeRealtyLimitedPartnershipMember us-gaap:CommonStockMember 2018-09-30 0000783280  
dre:DukeRealtyLimitedPartnershipMember us-gaap:NoncontrollingInterestMember 2018-01-01 2018-09-30  
0000783280 dre:DukeRealtyLimitedPartnershipMember dre:PartnersEquityTotalMember 2017-12-31 0000783280  
us-gaap:MinimumMember 2018-01-01 2018-09-30 0000783280 us-gaap:MaximumMember 2018-01-01 2018-09-30  
0000783280 us-gaap:WarehouseMember us-gaap:MinimumMember 2018-09-30 0000783280  
us-gaap:WarehouseMember us-gaap:MaximumMember 2018-09-30 0000783280  
dre:UnsecuredLineOfCreditDrIpMember 2018-01-01 2018-09-30 0000783280  
us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-01 2018-09-30 0000783280  
dre:UnsecuredLineOfCreditDrIpMember us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-01  
2018-09-30 0000783280 us-gaap:UnsecuredDebtMember 2018-01-01 2018-09-30 0000783280  
dre:FixedRateSecuredDebtMember 2018-09-30 0000783280 dre:FixedRateSecuredDebtMember  
us-gaap:MaximumMember 2018-09-30 0000783280 dre:FixedRateSecuredDebtMember 2018-01-01 2018-09-30

Edgar Filing: DUKE REALTY CORP - Form 10-Q

0000783280 dre:FixedRateSecuredDebtMember us-gaap:MinimumMember 2018-09-30 0000783280  
dre:UnsecuredLineOfCreditDrIpMember 2018-09-30 0000783280 dre:VariableRateSecuredDebtMember 2018-09-30  
0000783280 dre:VariableRateSecuredDebtMember 2017-12-31 0000783280 us-gaap:UnsecuredDebtMember  
2018-01-01 2018-09-30 0000783280 us-gaap:UnsecuredDebtMember 2018-09-30 0000783280  
dre:FixedRateSecuredDebtMember 2017-12-31 0000783280 dre:VariableRateSecuredDebtMember 2018-01-01  
2018-09-30 0000783280 us-gaap:UnsecuredDebtMember 2017-12-31 0000783280  
dre:AtTheMarketEquityIssuanceMember 2018-01-01 2018-09-30 0000783280 dre:GrossProceedsMember  
dre:AtTheMarketEquityIssuanceMember 2018-01-01 2018-09-30 0000783280  
dre:ConstructionAndDevelopmentFeesMember 2018-07-01 2018-09-30 0000783280  
dre:ConstructionAndDevelopmentFeesMember 2017-07-01 2017-09-30 0000783280 dre:LeasingFeesMember  
2017-07-01 2017-09-30 0000783280 dre:LeasingFeesMember 2018-07-01 2018-09-30 0000783280  
dre:LeasingFeesMember 2017-01-01 2017-09-30 0000783280 dre:ConstructionAndDevelopmentFeesMember  
2017-01-01 2017-09-30 0000783280 dre:LeasingFeesMember 2018-01-01 2018-09-30 0000783280  
dre:ManagementFeesMember 2017-01-01 2017-09-30 0000783280 dre:ManagementFeesMember 2018-01-01  
2018-09-30 0000783280 dre:ConstructionAndDevelopmentFeesMember 2018-01-01 2018-09-30 0000783280  
dre:ManagementFeesMember 2018-07-01 2018-09-30 0000783280 dre:ManagementFeesMember 2017-07-01  
2017-09-30 0000783280 dre:ParticipatingSecuritiesMember 2017-01-01 2017-09-30 0000783280  
us-gaap:StockOptionMember 2018-01-01 2018-09-30 0000783280 us-gaap:StockOptionMember 2018-07-01  
2018-09-30 0000783280 us-gaap:StockOptionMember 2017-07-01 2017-09-30 0000783280  
dre:ParticipatingSecuritiesMember 2018-01-01 2018-09-30 0000783280 us-gaap:StockOptionMember 2017-01-01  
2017-09-30 0000783280 dre:ParticipatingSecuritiesMember 2018-07-01 2018-09-30 0000783280  
dre:ParticipatingSecuritiesMember 2017-07-01 2017-09-30 0000783280 us-gaap:MaterialReconcilingItemsMember  
2018-01-01 2018-09-30 0000783280 us-gaap:CorporateNonSegmentMember 2017-01-01 2017-09-30 0000783280  
us-gaap:MaterialReconcilingItemsMember 2017-01-01 2017-09-30 0000783280  
us-gaap:CorporateNonSegmentMember 2018-07-01 2018-09-30 0000783280 us-gaap:OperatingSegmentsMember  
2017-01-01 2017-09-30 0000783280 us-gaap:MaterialReconcilingItemsMember 2018-07-01 2018-09-30 0000783280  
us-gaap:CorporateNonSegmentMember 2018-01-01 2018-09-30 0000783280 us-gaap:OperatingSegmentsMember  
dre:ServiceOperationsMember 2018-01-01 2018-09-30 0000783280 us-gaap:CorporateNonSegmentMember  
2017-07-01 2017-09-30 0000783280 us-gaap:OperatingSegmentsMember us-gaap:AllOtherSegmentsMember  
2018-01-01 2018-09-30 0000783280 us-gaap:OperatingSegmentsMember dre:ServiceOperationsMember 2018-07-01  
2018-09-30 0000783280 us-gaap:MaterialReconcilingItemsMember 2017-07-01 2017-09-30 0000783280  
us-gaap:OperatingSegmentsMember 2018-07-01 2018-09-30 0000783280 us-gaap:OperatingSegmentsMember  
us-gaap:WarehouseMember 2017-01-01 2017-09-30 0000783280 us-gaap:OperatingSegmentsMember 2018-01-01  
2018-09-30 0000783280 us-gaap:OperatingSegmentsMember 2017-07-01 2017-09-30 0000783280  
us-gaap:OperatingSegmentsMember dre:ServiceOperationsMember 2017-01-01 2017-09-30 0000783280  
us-gaap:OperatingSegmentsMember us-gaap:AllOtherSegmentsMember 2017-01-01 2017-09-30 0000783280  
us-gaap:OperatingSegmentsMember us-gaap:WarehouseMember 2018-01-01 2018-09-30 0000783280  
us-gaap:OperatingSegmentsMember us-gaap:AllOtherSegmentsMember 2017-07-01 2017-09-30 0000783280  
us-gaap:OperatingSegmentsMember us-gaap:AllOtherSegmentsMember 2018-07-01 2018-09-30 0000783280  
us-gaap:OperatingSegmentsMember us-gaap:WarehouseMember 2018-07-01 2018-09-30 0000783280  
us-gaap:OperatingSegmentsMember us-gaap:WarehouseMember 2017-07-01 2017-09-30 0000783280  
us-gaap:OperatingSegmentsMember dre:ServiceOperationsMember 2017-07-01 2017-09-30 0000783280  
us-gaap:SegmentContinuingOperationsMember 2017-12-31 0000783280  
us-gaap:SegmentContinuingOperationsMember 2018-09-30 0000783280  
us-gaap:SegmentDiscontinuedOperationsMember 2017-01-01 2017-09-30 0000783280 2017-01-01 2017-12-31  
0000783280 us-gaap:CommonStockMember us-gaap:SubsequentEventMember 2018-10-01 2018-12-31 dre:buildings  
xbri:shares iso4217:USD xbrli:shares iso4217:USD xbrli:pure iso4217:USD dre:sqft utreg:acre

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

# FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

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: 1-9044 (Duke Realty Corporation) 0-20625 (Duke Realty Limited Partnership)

## DUKE REALTY CORPORATION

## DUKE REALTY LIMITED PARTNERSHIP

(Exact Name of Registrant as Specified in Its Charter)

Indiana (Duke Realty Corporation)	35-1740409 (Duke Realty Corporation)
Indiana (Duke Realty Limited Partnership)	35-1898425 (Duke Realty Limited Partnership)
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
600 East 96 <sup>th</sup> Street, Suite 100	46240
Indianapolis, Indiana	
(Address of Principal Executive Offices)	(Zip Code)

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

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

**Duke Realty Corporation** Yes  No  **Duke Realty Limited Partnership** Yes  No

Indicate by check mark whether the registrant has submitted electronically on its corporate Web site, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

**Duke Realty Corporation** Yes  No  **Duke Realty Limited Partnership** Yes  No

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

**Duke Realty Corporation:**

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

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

**Duke Realty Limited Partnership:**

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

**Duke Realty Corporation** Yes  No  **Duke Realty Limited Partnership** Yes  No

## Edgar Filing: DUKE REALTY CORP - Form 10-Q

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

<b>Class</b>	<b>Outstanding Common Shares of Duke Realty Corporation at October 26, 2018</b>
Common Stock 0.01 par value per share	358,319,306

---

**EXPLANATORY NOTE**

This report (the "Report") combines the quarterly reports on Form 10-Q for the period ended September 30, 2018 of both Duke Realty Corporation and Duke Realty Limited Partnership. Unless stated otherwise or the context otherwise requires, references to "Duke Realty Corporation" or the "General Partner" mean Duke Realty Corporation and its consolidated subsidiaries, and references to the "Partnership" mean Duke Realty Limited Partnership and its consolidated subsidiaries. The terms the "Company," "we," "us" and "our" refer to the General Partner and the Partnership, collectively, and those entities owned or controlled by the General Partner and/or the Partnership. Duke Realty Corporation is a self-administered and self-managed real estate investment trust ("REIT") and is the sole general partner of the Partnership, owning 99.1% of the common partnership interests of the Partnership ("General Partner Units") as of September 30, 2018. The remaining 0.9% of the common partnership interests ("Limited Partner Units" and, together with the General Partner Units, the "Common Units") are owned by limited partners. As the sole general partner of the Partnership, the General Partner has full, exclusive and complete responsibility and discretion in the day-to-day management and control of the Partnership.

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

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

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

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

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

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

**DUKE REALTY CORPORATION/DUKE REALTY LIMITED PARTNERSHIP  
INDEX**

**Page**

**Part I - Financial Information**

**Item 1. Financial Statements**

**Duke Realty Corporation:**

<u>Consolidated Balance Sheets - September 30, 2018 (Unaudited) and December 31, 2017</u>	<u>3</u>
<u>Consolidated Statements of Operations and Comprehensive Income (Unaudited) - Three and Nine Months Ended September 30, 2018 and 2017</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows (Unaudited) - Nine Months Ended September 30, 2018 and 2017</u>	<u>5</u>
<u>Consolidated Statement of Changes in Equity (Unaudited) - Nine Months Ended September 30, 2018</u>	<u>6</u>

**Duke Realty Limited Partnership:**

<u>Consolidated Balance Sheets - September 30, 2018 (Unaudited) and December 31, 2017</u>	<u>7</u>
<u>Consolidated Statements of Operations and Comprehensive Income (Unaudited) - Three and Nine Months Ended September 30, 2018 and 2017</u>	<u>8</u>
<u>Consolidated Statements of Cash Flows (Unaudited) - Nine Months Ended September 30, 2018 and 2017</u>	<u>9</u>
<u>Consolidated Statement of Changes in Equity (Unaudited) - Nine Months Ended September 30, 2018</u>	<u>10</u>

**Duke Realty Corporation and Duke Realty Limited Partnership:**

<u>Notes to Consolidated Financial Statements (Unaudited)</u>	<u>11</u>
---	-----------

<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	<u>24</u>
---	-----------

<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	<u>45</u>
--	-----------

<b><u>Item 4. Controls and Procedures</u></b>	<u>47</u>
---	-----------

**Part II - Other Information**

<b><u>Item 1. Legal Proceedings</u></b>	<u>48</u>
---	-----------

<b><u>Item 1A. Risk Factors</u></b>	<u>48</u>
-------------------------------------	-----------

<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	<u>48</u>
---	-----------

<b><u>Item 3. Defaults Upon Senior Securities</u></b>	<u>49</u>
---	-----------

<b><u>Item 4. Mine Safety Disclosures</u></b>	<u>49</u>
---	-----------

<b><u>Item 5. Other Information</u></b>	<u>49</u>
---	-----------

<b><u>Item 6. Exhibits</u></b>	<u>50</u>
--------------------------------	-----------

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

	<b>September 30, 2018</b>	December 31, 2017
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
Real estate investments:		
Real estate assets	<b>\$ 6,943,629</b>	\$ 6,593,567
Construction in progress	<b>515,324</b>	401,407
Investments in and advances to unconsolidated joint ventures	<b>107,811</b>	126,487
Undeveloped land	<b>314,075</b>	226,987
	<b>7,880,839</b>	7,348,448
Accumulated depreciation	<b>(1,294,370)</b>	(1,193,905)
Net real estate investments	<b>6,586,469</b>	6,154,543
Real estate investments and other assets held-for-sale	<b>53,653</b>	17,550
Cash and cash equivalents	<b>133,405</b>	67,562
Accounts receivable, net of allowance of \$458 and \$1,709	<b>19,494</b>	19,427
Straight-line rent receivable, net of allowance of \$4,628 and \$5,254	<b>102,480</b>	93,005
Receivables on construction contracts, including retentions	<b>33,699</b>	13,480
Deferred leasing and other costs, net of accumulated amortization of \$211,212 and \$209,451	<b>305,143</b>	292,682
Restricted cash held in escrow for like-kind exchange	<b>127,597</b>	116,405
Notes receivable from property sales	<b>276,744</b>	426,657
Other escrow deposits and other assets	<b>186,126</b>	186,885
	<b>\$ 7,824,810</b>	\$ 7,388,196
<b>LIABILITIES AND EQUITY</b>		
Indebtedness:		
Secured debt, net of deferred financing costs of \$270 and \$614	<b>\$ 80,716</b>	\$ 311,349
Unsecured debt, net of deferred financing costs of \$26,583 and \$20,500	<b>2,553,460</b>	2,111,542
	<b>2,634,176</b>	2,422,891
Liabilities related to real estate investments held-for-sale	<b>606</b>	1,163
Construction payables and amounts due subcontractors, including retentions	<b>100,323</b>	54,545
Accrued real estate taxes	<b>89,671</b>	67,374
Accrued interest	<b>27,463</b>	17,911
Other liabilities	<b>208,874</b>	210,825
Tenant security deposits and prepaid rents	<b>38,773</b>	39,109
Total liabilities	<b>3,099,886</b>	2,813,818
Shareholders' equity:		
Common shares (\$0.01 par value); 600,000 shares authorized; 358,307 and 356,361 shares issued and outstanding, respectively	<b>3,583</b>	3,564
Additional paid-in capital	<b>5,240,495</b>	5,205,316
Distributions in excess of net income	<b>(571,617)</b>	(676,036)
Total shareholders' equity	<b>4,672,461</b>	4,532,844
Noncontrolling interests	<b>52,463</b>	41,534

Edgar Filing: DUKE REALTY CORP - Form 10-Q

Total equity	<b>4,724,924</b>	4,574,378
	<b>\$ 7,824,810</b>	\$ 7,388,196
See accompanying Notes to Consolidated Financial Statements		

3

---



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

	Three Months Ended		Nine Months Ended	
	2018	2017	2018	2017
Revenues:				
Rental and related revenue	\$196,912	\$169,611	\$582,461	\$507,123
General contractor and service fee revenue	34,986	25,217	94,552	58,192
	<b>231,898</b>	194,828	<b>677,013</b>	565,315
Expenses:				
Rental expenses	17,704	16,224	54,869	46,967
Real estate taxes	31,515	28,157	93,857	81,569
General contractor and other services expenses	33,730	24,079	89,392	54,077
Depreciation and amortization	78,855	67,992	232,216	197,028
	<b>161,804</b>	136,452	<b>470,334</b>	379,641
Other operating activities:				
Equity in earnings of unconsolidated joint ventures	5,552	1,841	15,521	58,523
Promote income	—	—	—	20,007
Gain on sale of properties	(107)	) 21,952	194,741	93,339
Gain on land sales	3,915	5,665	7,221	8,449
Other operating expenses	(668)	) (770)	(2,591)	) (2,226)
Impairment charges	—	(3,622)	—	(4,481)
General and administrative expenses	(8,959)	) (10,075)	(43,441)	) (41,165)
	(267)	) 14,991	171,451	132,446
Operating income	69,827	73,367	378,130	318,120
Other income (expenses):				
Interest and other income, net	4,129	6,404	13,319	9,197
Interest expense	(21,462)	) (20,835)	(62,137)	) (65,401)
Loss on debt extinguishment	(89)	) (16,568)	(240)	) (26,104)
Income from continuing operations before income taxes	52,405	42,368	329,072	235,812
Income tax benefit (expense)	897	(359)	(9,495)	(7,918)
Income from continuing operations	53,302	42,009	319,577	227,894
Discontinued operations:				
Income before gain on sales and income taxes	85	2,563	108	17,747
Gain on sale of depreciable properties	136	120,179	3,157	1,229,270
Income tax benefit (expense)	—	876	—	(10,736)
Income from discontinued operations	221	123,618	3,265	1,236,281
Net income	53,523	165,627	322,842	1,464,175
Net income attributable to noncontrolling interests	(498)	) (358)	(3,009)	) (18,163)
Net income attributable to common shareholders	\$53,025	\$165,269	\$319,833	\$1,446,012
Basic net income per common share:				
Continuing operations attributable to common shareholders	\$0.15	\$0.12	\$0.88	\$0.63
Discontinued operations attributable to common shareholders	—	0.34	0.01	3.43
Total	\$0.15	\$0.46	\$0.89	\$4.06
Diluted net income per common share:				
Continuing operations attributable to common shareholders	\$0.15	\$0.12	\$0.88	\$0.63
Discontinued operations attributable to common shareholders	—	0.34	0.01	3.40
Total	\$0.15	\$0.46	\$0.89	\$4.03

Edgar Filing: DUKE REALTY CORP - Form 10-Q

Weighted average number of common shares outstanding	<b>357,898</b>	355,905	<b>357,235</b>	355,614
Weighted average number of common shares and potential dilutive securities	<b>361,410</b>	362,102	<b>362,745</b>	361,947
Comprehensive income:				
Net income	<b>\$53,523</b>	\$165,627	<b>\$322,842</b>	\$1,464,175
Other comprehensive loss:				
Amortization of interest contracts	—	—	—	(682 )
Comprehensive income	<b>\$53,523</b>	\$165,627	<b>\$322,842</b>	\$1,463,493

See accompanying Notes to Consolidated Financial Statements

4

---

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

	2018	2017
Cash flows from operating activities:		
Net income	<b>\$322,842</b>	\$1,464,175
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of buildings and tenant improvements	<b>190,460</b>	179,918
Amortization of deferred leasing and other costs	<b>41,756</b>	42,996
Amortization of deferred financing costs	<b>4,303</b>	4,049
Straight-line rental income and expense, net	<b>(16,763)</b>	(12,021 )
Impairment charges	—	4,481
Loss on debt extinguishment	<b>240</b>	26,104
Gains on land and depreciated property sales	<b>(205,119)</b>	(1,331,058 )
Third-party construction contracts, net	<b>(5,088)</b>	2,679
Other accrued revenues and expenses, net	<b>43,627</b>	25,848
Equity in earnings in excess of operating distributions received from unconsolidated joint ventures	<b>(4,609)</b>	(45,298 )
<b>Net cash provided by operating activities</b>	<b>371,649</b>	361,873
Cash flows from investing activities:		
Development of real estate investments	<b>(459,513)</b>	(421,702 )
Acquisition of real estate investments and related intangible assets	<b>(208,914)</b>	(620,869 )
Acquisition of undeveloped land	<b>(194,171)</b>	(127,662 )
Second generation tenant improvements, leasing costs and building improvements	<b>(34,311)</b>	(34,350 )
Other deferred leasing costs	<b>(27,691)</b>	(22,399 )
Other assets	<b>(5,929)</b>	(4,886 )
Proceeds from the repayments of notes receivable from property sales	<b>149,913</b>	3,628
Proceeds from land and depreciated property sales, net	<b>434,584</b>	2,283,917
Capital distributions from unconsolidated joint ventures	<b>19,176</b>	111,635
Capital contributions and advances to unconsolidated joint ventures	<b>(2,728)</b>	(6,303 )
<b>Net cash (used for) provided by investing activities</b>	<b>(329,584)</b>	1,161,009
Cash flows from financing activities:		
Proceeds from issuance of common shares, net	<b>30,591</b>	7,309
Proceeds from unsecured debt	<b>450,000</b>	—
Payments on unsecured debt	<b>(1,998)</b>	(691,492 )
Payments on secured indebtedness including principal amortization	<b>(231,070)</b>	(71,154 )
Repayments on line of credit, net	—	(43,000 )
Distributions to common shareholders	<b>(214,463)</b>	(202,770 )
Distributions to noncontrolling interests, net	<b>(1,746)</b>	(8,407 )
Tax payments on stock-based compensation awards	<b>(8,389)</b>	(14,868 )
Change in book cash overdrafts	<b>22,669</b>	11,245
Deferred financing costs	<b>(8,485)</b>	(16 )
Redemption of Limited Partner Units	—	(457 )
<b>Net cash provided by (used for) financing activities</b>	<b>37,109</b>	(1,013,610 )
<b>Net increase in cash, cash equivalents and restricted cash</b>	<b>79,174</b>	509,272
Cash, cash equivalents and restricted cash at beginning of period	<b>193,627</b>	57,038
Cash, cash equivalents and restricted cash at end of period	<b>\$272,801</b>	\$566,310

Non-cash investing and financing activities:

Edgar Filing: DUKE REALTY CORP - Form 10-Q

Carrying amount of pre-existing ownership interest in acquired property	<b>\$5,034</b>	\$—
Non-cash property contribution from noncontrolling interests	<b>\$3,200</b>	\$—
Notes receivable from buyers in property sales	<b>\$—</b>	\$404,846
Conversion of Limited Partner Units to common shares	<b>\$1,967</b>	\$1,714
See accompanying Notes to Consolidated Financial Statements		

5

---

**DUKE REALTY CORPORATION AND SUBSIDIARIES****Consolidated Statement of Changes in Equity****For the nine months ended September 30, 2018****(in thousands, except per share data)****(Unaudited)**

	Common Shareholders				
	Common Stock	Additional Paid-in Capital	Distributions in Excess of Net Income	Noncontrolling Interests	Total
<b>Balance at December 31, 2017</b>	<b>\$ 3,564</b>	<b>\$5,205,316</b>	<b>\$ (676,036 )</b>	<b>\$ 41,534</b>	<b>\$4,574,378</b>
Net income	—	—	319,833	3,009	322,842
Issuance of common shares	11	30,580	—	—	30,591
Contributions from noncontrolling interests	—	—	—	3,475	3,475
Stock-based compensation plan activity	7	2,633	(951 )	8,433	10,122
Conversion of Limited Partner Units	1	1,966	—	(1,967 )	—
Distributions to common shareholders (\$0.60 per share)	—	—	(214,463 )	—	(214,463 )
Distributions to noncontrolling interests	—	—	—	(2,021 )	(2,021 )
<b>Balance at September 30, 2018</b>	<b>\$ 3,583</b>	<b>\$5,240,495</b>	<b>\$ (571,617 )</b>	<b>\$ 52,463</b>	<b>\$4,724,924</b>

See accompanying Notes to Consolidated Financial Statements

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

	September 30, 2018 (Unaudited)	December 31, 2017
<b>ASSETS</b>		
Real estate investments:		
Real estate assets	<b>\$ 6,943,629</b>	\$ 6,593,567
Construction in progress	<b>515,324</b>	401,407
Investments in and advances to unconsolidated joint ventures	<b>107,811</b>	126,487
Undeveloped land	<b>314,075</b>	226,987
	<b>7,880,839</b>	7,348,448
Accumulated depreciation	<b>(1,294,370)</b>	(1,193,905)
Net real estate investments	<b>6,586,469</b>	6,154,543
Real estate investments and other assets held-for-sale	<b>53,653</b>	17,550
Cash and cash equivalents	<b>133,405</b>	67,562
Accounts receivable, net of allowance of \$458 and \$1,709	<b>19,494</b>	19,427
Straight-line rent receivable, net of allowance of \$4,628 and \$5,254	<b>102,480</b>	93,005
Receivables on construction contracts, including retentions	<b>33,699</b>	13,480
Deferred leasing and other costs, net of accumulated amortization of \$211,212 and \$209,451	<b>305,143</b>	292,682
Restricted cash held in escrow for like-kind exchange	<b>127,597</b>	116,405
Notes receivable from property sales	<b>276,744</b>	426,657
Other escrow deposits and other assets	<b>186,126</b>	186,885
	<b>\$ 7,824,810</b>	\$ 7,388,196
<b>LIABILITIES AND EQUITY</b>		
Indebtedness:		
Secured debt, net of deferred financing costs of \$270 and \$614	<b>\$ 80,716</b>	\$ 311,349
Unsecured debt, net of deferred financing costs of \$26,583 and \$20,500	<b>2,553,460</b>	2,111,542
	<b>2,634,176</b>	2,422,891
Liabilities related to real estate investments held-for-sale	<b>606</b>	1,163
Construction payables and amounts due subcontractors, including retentions	<b>100,323</b>	54,545
Accrued real estate taxes	<b>89,671</b>	67,374
Accrued interest	<b>27,463</b>	17,911
Other liabilities	<b>208,874</b>	210,825
Tenant security deposits and prepaid rents	<b>38,773</b>	39,109
Total liabilities	<b>3,099,886</b>	2,813,818
Partners' equity:		
Common equity (358,307 and 356,361 General Partner Units issued and outstanding, respectively)	<b>4,672,461</b>	4,532,844
Limited Partners' common equity (3,302 and 3,283 Limited Partner Units issued and outstanding, respectively)	<b>48,010</b>	40,563
Total partners' equity	<b>4,720,471</b>	4,573,407
Noncontrolling interests	<b>4,453</b>	971
Total equity	<b>4,724,924</b>	4,574,378
	<b>\$ 7,824,810</b>	\$ 7,388,196

See accompanying Notes to Consolidated Financial Statements



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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
Revenues:				
Rental and related revenue	<b>\$196,912</b>	\$169,611	<b>\$582,461</b>	\$507,123
General contractor and service fee revenue	<b>34,986</b>	25,217	<b>94,552</b>	58,192
	<b>231,898</b>	194,828	<b>677,013</b>	565,315
Expenses:				
Rental expenses	<b>17,704</b>	16,224	<b>54,869</b>	46,967
Real estate taxes	<b>31,515</b>	28,157	<b>93,857</b>	81,569
General contractor and other services expenses	<b>33,730</b>	24,079	<b>89,392</b>	54,077
Depreciation and amortization	<b>78,855</b>	67,992	<b>232,216</b>	197,028
	<b>161,804</b>	136,452	<b>470,334</b>	379,641
Other operating activities:				
Equity in earnings of unconsolidated joint ventures	<b>5,552</b>	1,841	<b>15,521</b>	58,523
Promote income	—	—	—	20,007
Gain on sale of properties	<b>(107)</b>	) 21,952	<b>194,741</b>	93,339
Gain on land sales	<b>3,915</b>	5,665	<b>7,221</b>	8,449
Other operating expenses	<b>(668)</b>	) (770)	<b>(2,591)</b>	) (2,226)
Impairment charges	—	(3,622)	—	) (4,481)
General and administrative expenses	<b>(8,959)</b>	) (10,075)	<b>(43,441)</b>	) (41,165)
	<b>(267)</b>	) 14,991	<b>171,451</b>	132,446
Operating income	<b>69,827</b>	73,367	<b>378,130</b>	318,120
Other income (expenses):				
Interest and other income, net	<b>4,129</b>	6,404	<b>13,319</b>	9,197
Interest expense	<b>(21,462)</b>	) (20,835)	<b>(62,137)</b>	) (65,401)
Loss on debt extinguishment	<b>(89)</b>	) (16,568)	<b>(240)</b>	) (26,104)
Income from continuing operations before income taxes	<b>52,405</b>	42,368	<b>329,072</b>	235,812
Income tax benefit (expense)	<b>897</b>	(359)	<b>(9,495)</b>	) (7,918)
Income from continuing operations	<b>53,302</b>	42,009	<b>319,577</b>	227,894
Discontinued operations:				
Income before gain on sales and income taxes	<b>85</b>	2,563	<b>108</b>	17,747
Gain on sale of depreciable properties	<b>136</b>	120,179	<b>3,157</b>	1,229,270
Income tax benefit (expense)	—	876	—	) (10,736)
Income from discontinued operations	<b>221</b>	123,618	<b>3,265</b>	1,236,281
Net income	<b>53,523</b>	165,627	<b>322,842</b>	1,464,175
Net (income) loss attributable to noncontrolling interests	<b>(3)</b>	) 1,177	<b>(7)</b>	) (4,736)
Net income attributable to common unitholders	<b>\$53,520</b>	\$166,804	<b>\$322,835</b>	\$1,459,439
Basic net income per Common Unit:				
Continuing operations attributable to common unitholders	<b>\$0.15</b>	\$0.12	<b>\$0.88</b>	\$0.63
Discontinued operations attributable to common unitholders	—	0.34	<b>0.01</b>	3.43
Total	<b>\$0.15</b>	\$0.46	<b>\$0.89</b>	\$4.06
Diluted net income per Common Unit:				
Continuing operations attributable to common unitholders	<b>\$0.15</b>	\$0.12	<b>\$0.88</b>	\$0.63
Discontinued operations attributable to common unitholders	—	0.34	<b>0.01</b>	3.40
Total	<b>\$0.15</b>	\$0.46	<b>\$0.89</b>	\$4.03



Edgar Filing: DUKE REALTY CORP - Form 10-Q

Weighted average number of Common Units outstanding	<b>361,200</b>	359,206	<b>360,585</b>	358,921
Weighted average number of Common Units and potential dilutive securities	<b>361,410</b>	362,102	<b>362,745</b>	361,947
Comprehensive income:				
Net income	<b>\$53,523</b>	\$165,627	<b>\$322,842</b>	\$1,464,175
Other comprehensive loss:				
Amortization of interest contracts	—	—	—	(682 )
Comprehensive income	<b>\$53,523</b>	\$165,627	<b>\$322,842</b>	\$1,463,493

See accompanying Notes to Consolidated Financial Statements

8

---

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

	2018	2017
Cash flows from operating activities:		
Net income	<b>\$322,842</b>	\$1,464,175
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of buildings and tenant improvements	<b>190,460</b>	179,918
Amortization of deferred leasing and other costs	<b>41,756</b>	42,996
Amortization of deferred financing costs	<b>4,303</b>	4,049
Straight-line rental income and expense, net	<b>(16,763)</b>	(12,021 )
Impairment charges	—	4,481
Loss on debt extinguishment	<b>240</b>	26,104
Gains on land and depreciated property sales	<b>(205,119)</b>	(1,331,058 )
Third-party construction contracts, net	<b>(5,088)</b>	2,679
Other accrued revenues and expenses, net	<b>43,627</b>	25,848
Equity in earnings in excess of operating distributions received from unconsolidated joint ventures	<b>(4,609)</b>	(45,298 )
<b>Net cash provided by operating activities</b>	<b>371,649</b>	361,873
Cash flows from investing activities:		
Development of real estate investments	<b>(459,513)</b>	(421,702 )
Acquisition of real estate investments and related intangible assets	<b>(208,914)</b>	(620,869 )
Acquisition of undeveloped land	<b>(194,171)</b>	(127,662 )
Second generation tenant improvements, leasing costs and building improvements	<b>(34,311)</b>	(34,350 )
Other deferred leasing costs	<b>(27,691)</b>	(22,399 )
Other assets	<b>(5,929)</b>	(4,886 )
Proceeds from the repayments of notes receivable from property sales	<b>149,913</b>	3,628
Proceeds from land and depreciated property sales, net	<b>434,584</b>	2,283,917
Capital distributions from unconsolidated joint ventures	<b>19,176</b>	111,635
Capital contributions and advances to unconsolidated joint ventures	<b>(2,728)</b>	(6,303 )
<b>Net cash (used for) provided by investing activities</b>	<b>(329,584)</b>	1,161,009
Cash flows from financing activities:		
Contributions from the General Partner	<b>30,591</b>	7,309
Proceeds from unsecured debt	<b>450,000</b>	—
Payments on unsecured debt	<b>(1,998)</b>	(691,492 )
Payments on secured indebtedness including principal amortization	<b>(231,070)</b>	(71,154 )
Repayments on line of credit, net	—	(43,000 )
Distributions to common unitholders	<b>(216,484)</b>	(204,654 )
Contributions from (distributions to) noncontrolling interests, net	<b>275</b>	(6,523 )
Tax payments on stock-based compensation awards	<b>(8,389)</b>	(14,868 )
Change in book cash overdrafts	<b>22,669</b>	11,245
Deferred financing costs	<b>(8,485)</b>	(16 )
Redemption of Limited Partner Units	—	(457 )
<b>Net cash provided by (used for) financing activities</b>	<b>37,109</b>	(1,013,610 )
<b>Net increase in cash, cash equivalents and restricted cash</b>	<b>79,174</b>	509,272
Cash, cash equivalents and restricted cash at beginning of period	<b>193,627</b>	57,038
Cash, cash equivalents and restricted cash at end of period	<b>\$272,801</b>	\$566,310

Non-cash investing and financing activities:

Edgar Filing: DUKE REALTY CORP - Form 10-Q

Carrying amount of pre-existing ownership interest in acquired property	<b>\$5,034</b>	\$—
Non-cash property contribution from noncontrolling interests	<b>\$3,200</b>	\$—
Notes receivable from buyers in property sales	<b>\$—</b>	\$404,846
Conversion of Limited Partner Units to common shares of the General Partner	<b>\$1,967</b>	\$1,714
See accompanying Notes to Consolidated Financial Statements		

9

---

**DUKE REALTY LIMITED PARTNERSHIP AND SUBSIDIARIES****Consolidated Statement of Changes in Equity****For the nine months ended September 30, 2018****(in thousands, except per unit data)****(Unaudited)**

	Common Unitholders				Total Equity
	General Partner's Common Equity	Limited Partners' Common Equity	Total Partners' Equity	Noncontrolling Interests	
<b>Balance at December 31, 2017</b>	<b>\$4,532,844</b>	<b>\$40,563</b>	<b>\$4,573,407</b>	<b>\$ 971</b>	<b>\$4,574,378</b>
Net income	319,833	3,002	322,835	7	322,842
Capital contribution from the General Partner	30,591		30,591	—	30,591
Stock-based compensation plan activity	1,689	8,433	10,122	—	10,122
Contributions from noncontrolling interests	—	—	—	3,475	3,475
Conversion of Limited Partner Units	1,967	(1,967 )	—	—	—
Distributions to common unitholders (\$0.60 per Common Unit)	(214,463 )	(2,021 )	(216,484 )	—	(216,484 )
<b>Balance at September 30, 2018</b>	<b>\$4,672,461</b>	<b>\$48,010</b>	<b>\$4,720,471</b>	<b>\$ 4,453</b>	<b>\$4,724,924</b>

See accompanying Notes to Consolidated Financial Statements

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

**1. General Basis of Presentation**

The interim consolidated financial statements included herein have been prepared by the General Partner and the Partnership. The 2017 year-end consolidated balance sheet data included in this Report was derived from the audited financial statements in the combined Annual Report on Form 10-K of the General Partner and the Partnership for the year ended December 31, 2017 (the "2017 Annual Report"), but does not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP"). The financial statements have been prepared in accordance with GAAP for interim financial information and in accordance with Rule 10-01 of Regulation S-X of the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenue and expenses during the reporting period. Our actual results could differ from those estimates and assumptions. These financial statements should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included herein and the consolidated financial statements and notes thereto included in the 2017 Annual Report.

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

The General Partner is the sole general partner of the Partnership, owning approximately 99.1% of the Common Units at September 30, 2018. The remaining 0.9% of the Common Units are owned by limited partners. As the sole general partner of the Partnership, the General Partner has full, exclusive and complete responsibility and discretion in the day-to-day management and control of the Partnership. The General Partner and the Partnership are operated as one enterprise. The management of the General Partner consists of the same members as the management of the Partnership. As the sole general partner with control of the Partnership, the General Partner consolidates the Partnership for financial reporting purposes, and the General Partner does not have any significant assets other than its investment in the Partnership. Therefore, the assets and liabilities of the General Partner and the Partnership are substantially the same.

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

As of September 30, 2018, we owned and operated a portfolio primarily consisting of industrial properties and provided real estate services to third-party owners. Substantially all of our Rental Operations (see Note 10) are conducted through the Partnership. We conduct our Service Operations (see Note 10) through Duke Realty Services, LLC, Duke Realty Services Limited Partnership and Duke Construction Limited Partnership ("DCLP"), which are consolidated entities that are 100% owned by a combination of the General Partner and the Partnership. DCLP is owned through a taxable REIT subsidiary. The consolidated financial statements include our accounts and the accounts of our majority-owned or controlled subsidiaries.



## 2. New Accounting Pronouncements

### **Recently Adopted Accounting Pronouncements**

#### ***Revenue Recognition and De-recognition of Non-Financial Assets***

On January 1, 2018, we concurrently adopted Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* ("ASC 606") and ASC 610-20, *Other Income: Gains and Losses from the De-recognition of Non-financial Assets* ("ASC 610-20") using a modified retrospective ("cumulative effect") method of adoption. ASC 606 has superseded nearly all existing GAAP revenue recognition guidance, although its scope excludes lease contracts, which represent our primary source of revenue. The standard's core principle is that a company will recognize revenue when it satisfies performance obligations, by transferring promised goods or services to customers, in an amount that reflects the consideration to which the company expects to be entitled in exchange for fulfilling those performance obligations.

#### ***General Contractor and Service Fee Revenue***

Beginning with the January 1, 2018 adoption date, general contractor and service fee revenues, as presented on the Consolidated Statements of Operations, are accounted for within the scope of ASC 606. General contractor and service fee revenues are comprised primarily of construction and development related revenues earned from third parties while acting in capacity of a developer, as a general contractor or a construction manager. There are other ancillary streams of revenue included in general contractor and service fee revenues (see Note 10), such as management fees earned from unconsolidated joint ventures, which are not significant. Opening and closing balances of construction receivables are presented separately on the Consolidated Balance Sheets. Over billed construction receivables totaled \$927,000 and \$276,000 at September 30, 2018 and December 31, 2017, respectively. We generally do not have any contract assets associated with our construction arrangements.

Our construction arrangements are typically structured with only one performance obligation, which generally represents either an obligation to construct a new building or to construct fixtures in an existing building, and these single performance obligations are satisfied over time as construction progresses. We recognize revenue as we satisfy such performance obligations using the percentage of completion method, which is an input method allowed under ASC 606. 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. We believe the percentage of completion method is a faithful depiction of the transfer of goods and services as changes in job performance and estimated profitability, which result in revisions to costs and income and are recognized in the period in which the revisions are determined, have not historically been significant. We typically receive regular progress payments on the majority of our construction arrangements and such arrangements generally have an original duration of less than one year. As the result of the relatively short duration of our construction arrangements, we have elected to apply the optional disclosure exemptions, included in ASC 606, related to our remaining performance obligations for our in-process construction projects, for which any future variable consideration is not material.

#### ***De-Recognition of Non-Financial Assets***

ASC 610-20 provides guidance on how entities recognize sales, including partial sales, of non-financial assets (and in-substance non-financial assets) to non-customers. ASC 606 includes guidance governing the sale of non-financial assets with customers, while sales of non-financial assets to non-customers are governed by ASC 610-20. The only difference in the treatment of sales to customers and non-customers is the presentation in the Consolidated Statements of Operations (revenue and expense is reported when the sale is to a customer and net gain or loss is reported when the sale is to a non-customer). Based on the nature of our business, we have concluded that our property sales represent transactions with non-customers. In the typical course of our business, sales of non-financial assets represent only one performance obligation and are recognized when an enforceable contract is in place, collectability is ensured and control is transferred to the buyer.

ASC 610-20 also requires the seller to recognize a full gain or loss in a partial sale of non-financial assets, to the extent control is not retained. Any noncontrolling interest retained by the seller would, accordingly, be measured at fair value. We have primarily disposed of property and land in all cash transactions with no contingencies and no future involvement in the operations, and therefore, the adoption of ASC 610-20 has not significantly impacted the recognition of property and land sales.

There was no cumulative adjustment recognized to beginning retained earnings as of January 1, 2018 as the result of adopting ASC 606 and ASC 610-20.

### **Restricted Cash**

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash* ("ASU 2016-18"). ASU 2016-18 requires entities to show the changes in the total of cash, cash equivalents and restricted cash in the statement of cash flows. As a result, entities will no longer present transfers between cash, cash equivalents and restricted cash in the statement of cash flows. We adopted this standard on January 1, 2018, on a retrospective basis, and the adoption did not have a material impact on our consolidated financial statements.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Consolidated Balance Sheets that sum to the total of the same such amounts shown in the Consolidated Statements of Cash Flows (in thousands):

	<b>September 30, 2018</b>	December 31, 2017
Cash and cash equivalents	<b>\$ 133,405</b>	\$ 67,562
Restricted cash held in escrow for like-kind exchange	<b>127,597</b>	116,405
Restricted cash included in other escrow deposits and other assets	<b>11,799</b>	9,660
Total cash, cash equivalents, and restricted cash shown in the Consolidated Statements of Cash Flows	<b>\$ 272,801</b>	\$ 193,627

Restricted cash held in escrow for like-kind exchange on the Consolidated Balance Sheets includes cash received from the property dispositions but restricted only for qualifying like-kind exchange transactions.

### **Statement of Cash Flows**

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows* ("ASU 2016-15"). ASU 2016-15 clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows and how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. We adopted this standard on January 1, 2018, on a retrospective basis, and the adoption did not have a material impact on our consolidated financial statements.

### **Cloud Computing Arrangements**

In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement ("CCA") That is a Service Contract* ("ASU 2018-15"). ASU 2018-15 requires entities that enter into hosted CCA service arrangements to apply the existing internal-use software guidance to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. Under that model, both internal and external costs incurred in developing, coding and testing the new system are capitalizable, while the costs incurred in training and certain data conversion are expensed. ASU 2018-15 will be effective for fiscal years beginning on or after December 15, 2019 prospectively to eligible costs after the date the guidance is first applied or retrospectively, with early adoption permitted. We adopted ASU 2018-15 early and have applied it since January 1, 2018. The adoption did not have a material impact on our consolidated financial statements.



## **New Accounting Pronouncement Not Yet Adopted**

### ***Leases***

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

For lessors, the accounting under ASU 2016-02 will remain largely unchanged from current GAAP; however ASU 2016-02 requires that lessors expense certain initial direct costs, which are capitalizable under existing leasing standards, as incurred. Under the new standard, only the incremental costs of signing a lease will be capitalizable. If the new standard had been in effect, internal lease related costs totaling \$9.2 million and \$13.9 million, which are currently capitalizable, would have been expensed during the nine months ended September 30, 2018 and for the year ended December 31, 2017, respectively.

ASU 2016-02 also specifies that payments for certain lease-related services, which are often included in lease agreements, represent "non-lease" components that will become subject to the guidance in ASC 606, when ASU 2016-02 becomes effective. However, on July 30, 2018 the FASB issued targeted amendments, one of which provides lessors an optional election to not separate "non-lease" components from the related lease components when certain criteria are met and instead account for those components as a single component. We believe we will meet the criteria to account for lease and non-lease components as a single lease component.

ASU 2016-02 requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of classification. ASU 2016-02 will impact the accounting and disclosure requirements for ground leases, and other operating leases, where we are the lessee. At September 30, 2018, we had approximately 20 office and ground leases. Our future minimum rental payments under these office and ground leases did not materially change from the amounts that are included in the Contractual Obligations section of Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2017 Annual Report.

A set of practical expedients for implementation, which must be elected as a package and for all leases, may also be elected. These practical expedients include (i) relief from re-assessing whether an expired or existing contract meets the definition of a lease, (ii) relief from re-assessing the classification of expired or existing leases at the adoption date and (iii) allowing previously capitalized initial direct leasing costs to continue to be amortized.

ASU 2016-02 and any subsequent amendments will be effective for us on January 1, 2019. The targeted amendments issued on July 30, 2018, also provide a transitional option that will permit lessors to use the effective date of ASU 2016-02 as the date of initial application, without restating comparative periods, and to recognize a cumulative effect adjustment as of the effective date. We will apply the practical expedients as well as the optional relief provided by the targeted amendments.

### **3. Reclassifications**

Certain amounts in the accompanying consolidated financial statements for 2017 have been reclassified to conform to the 2018 consolidated financial statement presentation.

### **4. Variable Interest Entities**

#### ***Partnership***

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

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

#### *Joint Ventures*

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

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

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

There were no unconsolidated joint ventures, in which we have any recognized assets or liabilities or have retained any economic exposure to loss at September 30, 2018, that met the criteria to be considered VIEs. Our maximum loss exposure for guarantees of unconsolidated joint venture indebtedness, none of which relate to VIEs, totaled \$110.9 million at September 30, 2018.

## **5. Acquisitions and Dispositions**

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

#### *Acquisitions*

We paid cash of \$208.9 million and \$620.9 million for asset acquisitions during the nine months ended September 30, 2018 and 2017, respectively.

We acquired six properties during the nine months ended September 30, 2018. We determined that these six properties did not meet the definition of a business and, accordingly, we accounted for them as asset acquisitions as opposed to business combinations.

The following table summarizes amounts recognized for each major class of assets and liability (in thousands) for these acquisitions during the nine months ended September 30, 2018:

Real estate assets	\$ 191,551
Lease related intangible assets	18,566
<b>Total acquired assets</b>	<b>210,117</b>
Below market lease liability	504
<b>Fair value of acquired net assets</b>	<b>\$209,613</b>

The leases in the acquired properties had a weighted average remaining life at acquisition of approximately 12.3 years.

#### *Fair Value Measurements*

We determine the fair value of the individual components of real estate asset acquisitions primarily through calculating the "as-if vacant" value of a building, using an income approach, which relies significantly upon internally determined assumptions. We have determined that these estimates primarily rely upon level 3 inputs, which are unobservable inputs based on our own assumptions. The most significant assumptions used in calculating the "as-if vacant" value for acquisition activity during the nine months ended September 30, 2018 are as follows:

	Low	High
Exit capitalization rate	4.25%	4.91%
Net rental rate per square foot	\$6.50	\$10.20

Capitalized acquisition costs were insignificant and the fair value of the six properties acquired during the nine months ended September 30, 2018 was substantially the same as the cost of acquisition.

#### *Dispositions*

Dispositions of buildings and undeveloped land generated net cash proceeds of \$434.6 million and \$2.28 billion during the nine months ended September 30, 2018 and 2017, respectively. Additionally, during the nine months ended September 30, 2018, we collected \$149.9 million of principal on notes receivable primarily related to the sale of our medical office portfolio (the "Medical Office Portfolio Disposition") during 2017. The number of buildings sold, as well as their classification between continuing and discontinued operations, is disclosed in Note 11.

## **6. Indebtedness**

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

	Book Value at 12/31/2017	Book Value at 9/30/2018	Fair Value at 12/31/2017	Issuances and Assumptions	Payments/Payoffs	Adjustments to Fair Value	Fair Value at 9/30/2018
Fixed rate secured debt	\$ 309,463	\$ 78,786	\$ 325,753	\$ —	\$ (230,618 )	\$ (13,654 )	\$ 81,481
Variable rate secured debt	2,500	2,200	2,500	—	(300 )	—	2,200
Unsecured debt	2,132,042	2,580,043	2,190,548	450,000	(1,998 )	(90,747 )	2,547,803
Total	\$ 2,444,005	\$ 2,661,029	\$ 2,518,801	\$ 450,000	\$ (232,916 )	\$ (104,401 )	\$ 2,631,484
Less: Deferred financing costs	21,114	26,853					
Total indebtedness as reported on the consolidated balance sheets	\$ 2,422,891	\$ 2,634,176					

*Secured Debt*

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 4.10% to 4.40%, 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.

During the nine months ended September 30, 2018, we repaid three fixed rate secured loans, totaling \$227.1 million, which had a weighted average stated interest rate of 7.62%.

*Unsecured Debt*

At September 30, 2018, 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. The estimated trading values of our fixed rate unsecured debt, depending on the maturity and coupon rates, ranged from 94.00% to 122.00% of face value.

In September 2018, we issued \$450.0 million of senior unsecured notes that bear interest at a stated interest rate of 4.00%, have an effective interest of 4.13%, and mature on September 15, 2028. A portion of these proceeds were used to repay two of the secured loans noted above, totaling \$223.9 million with a weighted average stated interest rate of 7.63% and a maturity date of March 10, 2019.

The indentures (and related supplemental indentures) governing our outstanding series of unsecured notes also require us to comply with financial ratios and other covenants regarding our operations. We were in compliance with all such financial covenants at September 30, 2018.

*Unsecured Line of Credit*

Our unsecured line of credit at September 30, 2018 is described as follows (in thousands):

<b>Description</b>	<b>Borrowing Capacity</b>	<b>Maturity Date</b>	<b>Outstanding Balance at September 30, 2018</b>
Unsecured Line of Credit - Partnership	\$ 1,200,000	January 30, 2022	\$ —

The Partnership's unsecured line of credit has an interest rate on borrowings of LIBOR plus 0.875% and has a maturity date of January 30, 2022, with options to extend until January 30, 2023. Subject to certain conditions, the terms also include an option to increase the facility by up to an additional \$800.0 million, for a total of up to \$2.00 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-

17

---

asset value (with asset value being defined in the Partnership's unsecured line of credit agreement). At September 30, 2018, we were in compliance with all financial covenants under this line of credit.

To the extent there are outstanding borrowings, we utilize a discounted cash flow methodology in order to estimate the fair value of outstanding borrowings on our unsecured line of credit. To the extent that credit spreads have changed since the origination of the 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 would represent 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. As our credit spreads have not changed appreciably, we believe that the contractual interest rate and the current market rate on the line of credit are the same. The current market rate is internally estimated and therefore is primarily based upon a level 3 input.

## 7. Shareholders' Equity of the General Partner and Partners' Capital of the Partnership

### *General Partner*

During the nine months ended September 30, 2018, the General Partner issued 990,400 common shares pursuant to its at the market ("ATM") equity program, generating gross proceeds of approximately \$29.0 million and, after deducting commissions and other costs, net proceeds of approximately \$28.4 million. The proceeds from these offerings were contributed to the Partnership and used to fund development activities and loan repayments.

### *Partnership*

For each common share or preferred share that the General Partner issues, the Partnership issues a corresponding General Partner Unit or Preferred Unit, as applicable, to the General Partner in exchange for the contribution of the proceeds from the stock issuance. Similarly, when the General Partner redeems or repurchases common shares or preferred shares, the Partnership redeems the corresponding General Partner Units or Preferred Units held by the General Partner at the same price.

## 8. Related Party Transactions

We provide property management, asset management, leasing, construction and other tenant-related services to unconsolidated joint ventures 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 joint ventures, prior to the elimination of our ownership percentage (in thousands):

	<b>Three Months Ended September 30, 2018</b>		<b>Nine Months Ended September 30, 2018</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Management fees	\$462	\$432	\$1,359	\$1,962
Leasing fees	430	395	1,622	909
Construction and development fees	1,128	2,405	2,804	4,090

## 9. Net Income per Common Share or Common Unit

Basic net income per common share or Common Unit is computed by dividing net income attributable to common shareholders or common unitholders, less dividends or distributions 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 or Common Units outstanding for the period.

Diluted net income per common share is computed by dividing the sum of net income attributable to common shareholders and the noncontrolling interest in earnings allocable to Limited Partner Units (to the extent the Limited Partner Units are dilutive), less dividends or distributions on participating securities that are anti-dilutive, by the sum of the weighted average number of common shares outstanding and, to the extent they are dilutive, weighted





average number of Limited Partner Units outstanding and any potential dilutive securities for the period. Diluted net income per Common Unit is computed by dividing the net income attributable to common unitholders, less dividends or distributions on participating securities that are anti-dilutive, by the sum of the weighted average number of Common Units outstanding and any potential dilutive securities for the period. The following table reconciles the components of basic and diluted net income per common share or Common Unit (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>General Partner</b>				
Net income attributable to common shareholders	\$53,025	\$165,269	\$319,833	\$1,446,012
Less: dividends on participating securities	(394)	(444)	(1,249)	(1,527)
Basic net income attributable to common shareholders	52,631	164,825	318,584	1,444,485
Add back dividends on dilutive participating securities	—	444	1,249	1,527
Noncontrolling interest in earnings of common unitholders	495	1,535	3,002	13,427
Diluted net income attributable to common shareholders	\$53,126	\$166,804	\$322,835	\$1,459,439
Weighted average number of common shares outstanding	357,898	355,905	357,235	355,614
Weighted average Limited Partner Units outstanding	3,302	3,301	3,350	3,307
Other potential dilutive shares	210	2,896	2,160	3,026
Weighted average number of common shares and potential dilutive securities	361,410	362,102	362,745	361,947

**Partnership**

Net income attributable to common unitholders	\$53,520	\$166,804	\$322,835	\$1,459,439
Less: distributions on participating securities	(394)	(444)	(1,249)	(1,527)
Basic net income attributable to common unitholders	\$53,126	\$166,360	\$321,586	\$1,457,912
Add back distributions on dilutive participating securities	—	444	1,249	1,527
Diluted net income attributable to common unitholders	\$53,126	\$166,804	\$322,835	\$1,459,439
Weighted average number of Common Units outstanding	361,200	359,206	360,585	358,921
Other potential dilutive units	210	2,896	2,160	3,026
Weighted average number of Common Units and potential dilutive securities	361,410	362,102	362,745	361,947

The following table summarizes the data that is excluded from the computation of net income per common share or Common Unit as a result of being anti-dilutive (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>General Partner and Partnership</b>				
Other potential dilutive shares or units:				
Anti-dilutive outstanding potential shares or units under fixed stock option and other stock-based compensation plans	—	—	—	—
Anti-dilutive outstanding participating securities	2,147	—	—	—

**10. Segment Reporting**

*Reportable Segments*

During the year ended December 31, 2017, we completed the Medical Office Portfolio Disposition, which resulted in all of our in-service medical office properties being classified within discontinued operations, with the exception of a property that did not meet the criteria for classification as held-for-sale at September 30, 2018. As a result of this transaction, beginning the second quarter of 2017, our medical office properties were no longer presented as a separate reportable segment, with substantially all such operating results being classified within discontinued operations. The

remaining medical office property included in continuing operations no longer meets the quantitative thresholds for separate presentation, and is classified as part of our non-reportable Rental Operations. Properties that are not included in our reportable segments, because they do not by themselves meet the

quantitative thresholds for separate presentation as a reportable segment, are generally referred to as non-reportable Rental Operations. Our non-reportable Rental Operations primarily include our remaining office properties and medical office property at September 30, 2018.

As of September 30, 2018, we had two reportable operating segments, the first consisting of the ownership and rental of industrial real estate investments. Our ongoing investments in new real estate investments are determined largely upon anticipated geographic trends in supply and demand for industrial buildings, as well as the real estate needs of our major tenants that operate on a national level. Our strategic initiatives and our allocation of resources have been historically based upon allocation among product types, which was consistent with our designation of reportable segments, and after having sold nearly all of our office and medical office properties we intend to increase our investment in industrial properties and treat them as a single operating and reportable segment. The operations of our industrial properties, as well as our non-reportable Rental Operations, are collectively referred to as "Rental Operations."

Our second 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." The Service Operations segment is identified as one single operating segment because the lowest level of financial results reviewed by our chief operating decision maker are the results for the Service Operations segment in total. Further, our reportable segments are managed separately because each segment requires different operating strategies and management expertise.

#### *Revenues by Reportable Segment*

The following table shows the revenues for each of the reportable segments, as well as a reconciliation to consolidated revenues (in thousands):

	<b>Three Months Ended September 30, 2018</b>		<b>Nine Months Ended September 30, 2018</b>	
	2017		2017	
<u>Revenues</u>				
Rental Operations:				
Industrial	\$ 166,344	<b>\$ 194,922</b>	\$ 485,785	<b>\$ 574,866</b>
Non-reportable Rental Operations	20,577	<b>1,481</b>	2,979	<b>6,300</b>
Service Operations	58,192	<b>34,986</b>	25,217	<b>94,552</b>
Total segment revenues	564,554	<b>231,389</b>	194,540	<b>675,718</b>
Other revenue		<b>509</b>	288	<b>1,295</b>