BRANDYWINE OPERATING PARTNERSHIP, L.P.
Form 10-K
February 25, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark One)

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

For the fiscal year ended December 31, 2013
OR

o 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 001-9106 (Brandywine Realty Trust)
000-24407 (Brandywine Operating Partnership, L.P.)

Brandywine Realty Trust
Brandywine Operating Partnership, L.P.
(Exact name of registrant as specified in its charter)

MARYLAND (Brandywine Realty Trust)	23-2413352
DELAWARE (Brandywine Operating Partnership L.P.)	23-2862640
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

555 East Lancaster Avenue	
Radnor, Pennsylvania	19087
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (610) 325-5600
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares of Beneficial Interest, par value $0.01 per share (Brandywine Realty Trust)	New York Stock Exchange
6.90% Series E Cumulative Redeemable Preferred Shares of Beneficial Interest par value $0.01 per share (Brandywine Realty Trust)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
Units of General Partnership Interest (Brandywine Operating Partnership, L.P.)
(Title of class)
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Brandywine Realty Trust	Yes þ No o
Brandywine Operating Partnership, L.P.	Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Brandywine Realty Trust	Yes o No þ
Brandywine Operating Partnership, L.P.	Yes o No þ

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.

Brandywine Realty Trust	Yes þ No o
Brandywine Operating Partnership, L.P.	Yes þ No o

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Brandywine Realty Trust	Yes þ No o
Brandywine Operating Partnership, L.P.	Yes þ No o

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Brandywine Realty Trust:

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o

Brandywine Operating Partnership, L.P.:

Large accelerated filer o Accelerated filer o Non-accelerated filer þ Smaller reporting company o

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

Brandywine Realty Trust	Yes o No þ
Brandywine Operating Partnership, L.P.	Yes o No þ

As of June 28, 2013, the aggregate market value of the Common Shares of Beneficial Interest held by non-affiliates of Brandywine Realty Trust was $2,091,192,105 based upon the last reported sale price of $13.52 per share on the New York Stock Exchange on June 28, 2013. An aggregate of 156,738,955 Common Shares of Beneficial Interest were outstanding as of February 20, 2014.

As of June 28, 2013, the aggregate market value of the 1,763,639 common units of limited partnership ("Units") held by non-affiliates of Brandywine Operating Partnership, L.P. was $23,844,399 based upon the last reported sale price of $13.52 per share on the New York Stock Exchange on June 28, 2013 of the Common Shares of Beneficial Interest of Brandywine Realty Trust, the sole general partner of Brandywine Operating Partnership, L.P. (For this computation, the Registrant has excluded the market value of all Units beneficially owned by Brandywine Realty Trust.)

Documents Incorporated By Reference

Portions of the proxy statement for the 2014 Annual Meeting of Shareholders of Brandywine Realty Trust are incorporated by reference into Part III of this Form 10-K.

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EXPLANATORY NOTE

This report combines the annual reports on Form 10-K for the year ended December 31, 2013 of Brandywine Realty Trust (the “Parent Company”) and Brandywine Operating Partnership, L.P. (the “Operating Partnership”). The Parent Company is a Maryland real estate investment trust, or REIT, that owns its assets and conducts its operations through the Operating Partnership, a Delaware limited partnership, and subsidiaries of the Operating Partnership. The Parent Company, the Operating Partnership and their consolidated subsidiaries are collectively referred to in this report as the “Company”. In addition, terms such as “we”, “us”, or “our” used in this report may refer to the Company, the Parent Company or the Operating Partnership.

The Parent Company is the sole general partner of the Operating Partnership and as of December 31, 2013, owned a 98.8% interest in the Operating Partnership. The remaining 1.2% interest consists of common units of limited partnership interest issued by the Operating Partnership to third parties in exchange for contributions of properties to the Operating Partnership. As the sole general partner of the Operating Partnership, the Parent Company has full and complete authority over the Operating Partnership’s day-to-day operations and management.

As general partner with control of the Operating Partnership, the Parent Company consolidates the Operating Partnership for financial reporting purposes, and the Parent Company does not have significant assets other than its investment in the Operating Partnership. Therefore, the assets and liabilities of the Parent Company and the Operating Partnership are the same on their respective financial statements. The separate discussions of the Parent Company and the Operating Partnership in this report should be read in conjunction with each other to understand the results of the Company's operations on a consolidated basis and how management operates the Company.

Management operates the Parent Company and the Operating Partnership as one enterprise. The management of the Parent Company consists of the same members as the management of the Operating Partnership. These members are officers of both the Parent Company and of the Operating Partnership.

The Company believes that combining the annual reports on Form 10-K of the Parent Company and the Operating Partnership into a single report will result in the following benefits:

- facilitate a better understanding by the investors of the Parent Company and the Operating Partnership by enabling them to view the business as a whole in the same manner as management views and operates the business;
- remove duplicative disclosures and provide a more straightforward presentation in light of the fact that a substantial portion of the disclosure applies to both the Parent Company and the Operating Partnership; and
- create time and cost efficiencies through the preparation of one combined report instead of two separate reports.

There are few differences between the Parent Company and the Operating Partnership, which are reflected in the footnote disclosures in this report. The Company believes it is important to understand the differences between the Parent Company and the Operating Partnership in the context of how these entities operate as an interrelated consolidated company. The Parent Company is a REIT, whose only material asset is its ownership of the partnership interests of the Operating Partnership. As a result, the Parent Company does not conduct business itself, other than acting as the sole general partner of the Operating Partnership, issuing public equity from time to time and guaranteeing the debt obligations of the Operating Partnership. The Operating Partnership holds substantially all the assets of the Company and directly or indirectly holds the ownership interests in the Company’s real estate ventures. The Operating Partnership conducts the operations of the Company’s business and is structured as a partnership with no publicly traded equity. Except for net proceeds from equity issuances by the Parent Company, which are contributed to the Operating Partnership in exchange for partnership units, the Operating Partnership generates the capital required by the Company’s business through the Operating Partnership’s operations, by the Operating Partnership’s direct or indirect incurrence of indebtedness or through the issuance of partnership units of the Operating Partnership or equity interests in subsidiaries of the Operating Partnership.

The equity and non-controlling interests in the Parent Company and the Operating Partnership’s equity are the main areas of difference between the consolidated financial statements of the Parent Company and the Operating Partnership. The common units of limited partnership interest in the Operating Partnership are accounted for as partners’ equity in the Operating Partnership’s financial statements while the common units of limited partnership interests held by parties other than the Parent Company are presented as non-controlling interests in the Parent

Company's financial statements. The differences between the Parent Company and the Operating Partnership's equity relate to the differences in the equity issued at the Parent Company and Operating Partnership levels.

To help investors understand the significant differences between the Parent Company and the Operating Partnership, this report presents the following as separate notes or sections for each of the Parent Company and the Operating Partnership:

- Consolidated Financial Statements;

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•Parent Company's and Operating Partnership's Equity

This report also includes separate Item 9A. (Controls and Procedures) disclosures and separate Exhibit 31 and 32 certifications for each of the Parent Company and the Operating Partnership in order to establish that the Chief Executive Officer and the Chief Financial Officer of each entity have made the requisite certifications and that the Parent Company and Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. § 1350.

In order to highlight the differences between the Parent Company and the Operating Partnership, the separate sections in this report for the Parent Company and the Operating Partnership specifically refer to the Parent Company and the Operating Partnership. In the sections that combine disclosures of the Parent Company and the Operating Partnership, this report refers to such disclosures as those of the Company.

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Filing Format

This combined Form 10-K is being filed separately by Brandywine Realty Trust (the "Parent Company") and Brandywine Operating Partnership, L.P. (the "Operating Partnership").

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. This Annual Report on Form 10-K and other materials filed by us with the Securities and Exchange Commission (the "SEC") (as well as information included in oral or other written statements made by us) contain statements that are forward-looking, including statements relating to business and real estate development activities, acquisitions, dispositions, future capital expenditures, financing sources, governmental regulation (including environmental regulation) and competition. We intend such forward-looking statements to be covered by the safe-harbor provisions of the 1995 Act. The words "anticipate," "believe," "estimate," "expect," "intend," "will," "should" and similar expressions, as relate to us, are intended to identify forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, we can give no assurance that our expectations will be achieved. As forward-looking statements, these statements involve important risks, uncertainties and other factors that could cause actual results to differ materially from the expected results and, accordingly, such results may differ from those expressed in any forward-looking statements made by us or on our behalf. Factors that could cause actual results to differ materially from our expectations include, but are not limited to:

- the continuing impact of modest global economic growth, which is having and may continue to have a negative effect on the following, among other things:
- the fundamentals of our business, including overall market occupancy, demand for office space and rental rates;
- the financial condition of our tenants, many of which are financial, legal and other professional firms, our lenders, counterparties to our derivative financial instruments and institutions that hold our cash balances and short-term investments, which may expose us to increased risks of default by these parties;
- the availability of financing on attractive terms or at all, which may adversely impact our future interest expense and our ability to pursue acquisition and development opportunities and refinance existing debt; and
- a decline in real estate asset valuations, which may limit our ability to dispose of assets at attractive prices or obtain or maintain debt financing secured by our properties or on an unsecured basis.
- changes in local real estate conditions (including changes in rental rates and the number of properties that compete with our properties);
- our failure to lease unoccupied space in accordance with our projections;
- our failure to re-lease occupied space upon expiration of leases;
- tenant defaults and the bankruptcy of major tenants;
- increases in interest rates;
- failure of interest rate hedging contracts to perform as expected and the effectiveness of such arrangements;
- failure of acquisitions to perform as expected;
- unanticipated costs associated with the acquisition, integration and operation of our acquisitions;
- unanticipated costs to complete, lease-up and operate our developments and redevelopments;
- unanticipated costs associated with land development, including building moratoriums and inability to obtain necessary zoning, land-use, building, occupancy and other required governmental approvals, construction cost increases or overruns and construction delays;
- impairment charges;
- increased costs for, or lack of availability of, adequate insurance, including for terrorist acts or environmental liabilities;
- actual or threatened terrorist attacks;
- the impact on workplace and tenant space demands driven by technology, employee culture and commuting patterns;
- demand for tenant services beyond those traditionally provided by landlords;
- liability and clean-up costs under environmental or other laws;
- failure or bankruptcy of real estate venture partners;

- inability of real estate venture partners to fund venture obligations;
- failure to manage effectively our growth into new product types within our real estate venture arrangements;
- failure of dispositions to close in a timely manner;
- failure of buyers of our properties to comply with terms of their financing agreements to us;
- earthquakes and other natural disasters;
- the unforeseen impact of climate change and compliance costs relating to laws and regulations governing climate change;
- risks associated with federal, state and local tax audits;

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- complex regulations relating to our status as a REIT and the adverse consequences of our failure to qualify as a REIT; and
- the impact of newly adopted accounting principles on our accounting policies and on period-to-period comparisons of financial results.

Given these uncertainties, and the other risks identified in the "Risk Factors" section and elsewhere in this Annual Report on Form 10-K, we caution readers not to place undue reliance on forward-looking statements. We assume no obligation to update or supplement forward-looking statements that become untrue because of subsequent events.

PART I

Item 1. Business

Introduction

We are a self-administered and self-managed REIT that provides leasing, property management, development, redevelopment, acquisition and other tenant-related services for a portfolio of office, mixed-use and industrial properties. As of December 31, 2013, we owned 204 properties that contain an aggregate of approximately 24.8 million net rentable square feet and consist of 176 office properties, 19 industrial facilities, five mixed-use properties, one development property, two redevelopment properties and one re-entitlement property (collectively, the "Properties"). In addition, as of December 31, 2013, we owned economic interests in 17 unconsolidated real estate ventures that that own properties that contain approximately 5.7 million net rentable square feet (collectively, the "Real Estate Ventures"). As of December 31, 2013, we also owned 432 acres of undeveloped land, and held options to purchase approximately 51 additional acres of undeveloped land. As of December 31, 2013, the total potential development that these land parcels could support under current zoning, entitlements or combination thereof, amounted to 6.8 million square feet. The Properties and the properties owned by the Real Estate Ventures are located in or near Philadelphia, Pennsylvania; Metropolitan Washington, D.C.; Southern New Jersey; Richmond, Virginia; Wilmington, Delaware; Austin, Texas and Oakland, Concord, and Carlsbad, California. In addition to managing properties that we own, as of December 31, 2013, we were managing approximately 7.9 million net rentable square feet of office and industrial properties for third parties and the Real Estate Ventures. Unless otherwise indicated, all references in this Form 10-K to square feet represent net rentable area. We do not have any foreign operations and our business is not seasonal. Our operations are not dependent on a single tenant or a few tenants and no single tenant accounted for more than 10% of our total 2013 revenue.

Organization

The Parent Company was organized and commenced its operations in 1986 as a Maryland REIT. The Parent Company owns its assets and conducts its operations through the Operating Partnership and subsidiaries of the Operating Partnership. The Operating Partnership was formed in 1996 as a Delaware limited partnership. The Parent Company controls the Operating Partnership as its sole general partner. As of December 31, 2013, the Parent Company owned a 98.8% interest in the Operating Partnership. The remaining 1.2% interest in the Operating Partnership consists of common units of limited partnership interest issued to the holders in exchange for contributions of properties to the Operating Partnership. Our structure as an "UPREIT" is designed, in part, to permit persons contributing properties to us to defer some or all of the tax liability they might otherwise incur in a sale of properties. Our executive offices are located at 555 East Lancaster Avenue, Suite 100, Radnor, Pennsylvania 19087 and our telephone number is (610) 325-5600. We have offices in Philadelphia, Pennsylvania; McLean, Virginia; Mount Laurel, New Jersey; Richmond, Virginia; Austin, Texas; and Carlsbad, California. We have an internet website at www.brandywinerealty.com. We are not incorporating by reference into this Annual Report on Form 10-K any material from our website. The reference to our website is an inactive textual reference to the uniform resource locator (URL) and is for your reference only.

2013 Transactions

Real Estate Acquisitions

On December 19, 2013, we increased our equity ownership interest in One and Two Commerce Square, two Class A trophy office properties in Philadelphia, Pennsylvania, from 25% to 99%. These two properties contain 1,896,142 of net rentable square feet of office space and were 83.7% and 89.6% occupied, respectively, as of December 31, 2013. We acquired the additional ownership interests from an unaffiliated third party for cash proceeds of $73.1 million. We used available corporate funds for the cash portion of the acquisition price.

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In connection with the acquisition of One Commerce Square, we assumed a $125.1 million existing non-recourse first mortgage with a fixed interest rate of 5.67% and a maturity date of January 6, 2016. In connection with the acquisition of Two Commerce Square, we assumed a $112.0 million existing non-recourse first mortgage with a fixed interest rate of 3.96% and a maturity date of April 5, 2023.

On December 19, 2013, we acquired, from an unaffiliated third party, a two building office property totaling 192,396 of net rentable square feet known as Four Points Centre, together with 22.3 acres of nearby land parcels in Austin, Texas for an aggregate $47.3 million. This office property was 99.2% occupied as of December 31, 2013. We funded the acquisition price with available corporate funds.

On November 19, 2013, we acquired, from an unaffiliated third party, the 0.8 acre land parcel underlying our Cira Centre office tower in Philadelphia, Pennsylvania for $24.6 million. We had developed and owned Cira Centre on land subject to a long-term ground lease, and our acquisition of the land resulted in termination of the ground lease. We funded the acquisition with available corporate funds and capitalized $1.4 million of acquisition related costs as part of our basis in the operating land.

On April 25, 2013, we acquired the 1.8 acre land parcel underlying our Three Logan Square office tower in Philadelphia, Pennsylvania for $20.8 million. We acquired Three Logan Square in 2010 on land subject to a long-term ground lease, and, as part of our 2010 acquisition, held an option to acquire the land. Our 2013 acquisition of the land resulted in termination of the ground lease. We funded the acquisition with available corporate funds and capitalized $0.1 million of acquisition related costs as part of basis in the operating land.

For additional information on our 2013 acquisitions, please see Item 2 of this Form 10-K below.

Real Estate Dispositions

On December 19, 2013, we sold a 50,000 net rentable square feet office property located in King of Prussia, Pennsylvania known as 875 First Avenue, for a sales price of $3.8 million resulting in a $0.1 million gain on sale after closing and other transaction related costs.

On October 17, 2013, we sold a 39,330 net rentable square feet office property located in West Chester, Pennsylvania known as 1336 Enterprise Drive, for a sales price of $2.6 million resulting in a $0.2 million gain on sale after closing and other transaction related costs.

On August 5, 2013, the Company sold an eight-acre parcel of land located in Richmond, Virginia known as Dabney Land East, for a sales price of $0.5 million resulting in a $0.1 million loss on sale after closing and other transaction related costs. The land parcel was undeveloped as of the date of sale.

On June 28, 2013, the Company sold 16870 West Bernardo Drive, a 68,708 net rentable square feet office property located in San Diego, California, for a sales price of $18.0 million resulting in a $0.9 million loss on sale after closing and other transaction related costs.

On June 28, 2013, the Company sold 100 Arrandale Boulevard, a 34,931 net rentable square feet office property located in Exton, Pennsylvania, for a sales price of $3.5 million resulting in a $0.4 million loss on sale after closing and other transaction related costs.

On June 19, 2013, the Company sold 1700 Paoli Pike, a 28,000 net rentable square feet office property located in Malvern, Pennsylvania known as 100 Applebrook, for a sales price of $2.7 million resulting in a $0.4 million loss on sale after closing and other transaction related costs.

On June 14, 2013, the Company sold Pacific View Plaza, a 51,695 net rentable square feet office property located in Carlsbad, California, for a sales price of $10.3 million resulting in a $0.5 million loss on sale after closing and other transaction related costs.

On February 25, 2013, the Company sold a portfolio of eight office properties, containing 800,546 square feet in Lawrenceville, New Jersey for an aggregate sales price of $121.0 million resulting in a $5.3 million gain on sale after closing and other transaction related costs.

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Austin Venture Formation

On October 16, 2013, we contributed a portfolio of seven office properties containing an aggregate of 1,398,826 net rentable square feet and located in Austin, Texas (the "Austin Properties") to a new unconsolidated real estate venture (the "Austin Venture") that we formed with G&I VII Austin Office LLC (“DRA”), an investment vehicle unaffiliated with us and advised by DRA Advisors LLC. The Austin Properties and related assets represent our entire remaining property portfolio within the Austin, Texas region, with the exception of Four Points Centre which was acquired in December 2013. Based on arm's-length negotiation, we and DRA agreed to a $330.0 million aggregate gross valuation of the properties we contributed into the Austin Venture subject to our obligation to fund the first $5.2 million of post-closing capital expenditures of the Austin Venture, of which $0.8 million had been funded by us through December 31, 2013.

We and DRA each own a 50% interest in the Austin Venture, subject to our receipt of a "promoted interest" that entitles us to receive (in addition to receipts on account of our 50% interest) up to an additional 10% of net proceeds from capital events, such as property sales, if and after DRA and we have received an agreed upon internal rate of return on our respective capital contributions to the Austin Venture.

Upon its formation, the Austin Venture obtained third party non-recourse debt financing of approximately $230.6 million secured by mortgages on the Austin Properties and used proceeds of this financing together with $49.7 million of cash contributed to the Austin Venture by DRA (less $1.9 million of closing costs and $6.9 million of closing prorations and lender holdbacks) to fund a $271.5 million distribution to us. We have agreed to fund the first $5.2 million of post-closing capital expenditures on behalf of the Austin Venture, resulting in net proceeds to us of $266.3 million after funding our capital expenditure obligation. As part of the transaction, our subsidiary management company executed an agreement with the Austin Venture to provide property management and leasing services to the Austin Venture in exchange for a market-based fee.

4040 Wilson Venture Formation

On July 31, 2013, we formed 4040 Wilson LLC Venture ("4040 Wilson"), as a joint venture between us and Ashton Park Associates LLC (“Ashton Park”), an unaffiliated third party. We and Ashton Park each owns a 50% interest in 4040 Wilson. 4040 Wilson expects to construct a 426,900 square foot office building representing the final phase of the eight building, mixed-use, Liberty Center complex developed by the parent company of Ashton Park in the Ballston submarket of Arlington, Virginia. 4040 Wilson expects to develop the office building on a 1.3 acre land parcel contributed by Ashton Park to 4040 Wilson at an agreed upon valuation of $36.0 million. The total estimated project costs are $194.1 million, which we expect will be financed through approximately $72.0 million of partner capital contributions (consisting of $36.0 million in cash from the Company and land with a value of $36.0 million from Ashton Park) and approximately $125.1 million of debt financing through a construction lender that has not yet been determined. We expect groundbreaking to commence upon achievement of certain of pre-leasing levels, at which point 4040 Wilson would expect to obtain debt financing for a portion of the project costs.

In our joint venture agreement with Ashton Park, we agreed to guarantee 100% of any lender mandated recourse. As of December 31, 2013, we had no outstanding guarantees related to 4040 Wilson.

Two and Six Tower Bridge Exchange Transaction

On June 19, 2013, we acquired an unaffiliated third party's ownership interest in Six Tower Bridge, an office property containing 116,174 net rentable square feet in Conshohocken, Pennsylvania. Prior to the June 2013 acquisition, we had a 63% ownership interest in the real estate venture that held title to this property. We acquired full ownership of Six Tower Bridge by exchanging our entire 37% ownership interest in a separate real estate venture that held title to Two Tower Bridge, an office property also in Conshohocken, for the remaining 35% ownership interest in Six Tower Bridge. Please see Note 4, "Investment in Unconsolidated Real Estate Ventures," to our consolidated financial statements for further discussion.

evo at Cira Centre South Venture (formerly the Grove Venture)

On January 25, 2013, we formed the HSRE-Campus Crest IX Real Estate Venture ("evo at Cira"), a joint venture among the Company and two unaffiliated third parties: Campus Crest Properties, LLC ("Campus Crest") and HSRE-Campus Crest IXA, LLC ("HSRE"). evo at Cira has commenced construction of a 33-story, 850-bed student housing tower located in the University City submarket of Philadelphia, Pennsylvania. The project is targeted for completion during the third quarter of 2014. We and Campus Crest each own a 30% interest in the evo at Cira and HSRE owns a 40% interest. evo at Cira is developing the project on a one-acre land parcel held under a long-term ground lease with the University of Pennsylvania, as ground lessor. We contributed to evo at Cira our tenancy rights under the long-term ground lease, together with associated development rights, at an agreed-upon value of $8.5 million. The total estimated project costs are $158.5 million, which are being financed through partner capital contributions totaling $60.7 million, and through $97.8 million of secured debt construction financing provided by PNC Bank,

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Capital One, and First Niagara Bank. We and Campus Crest have each provided, in addition to customary non-recourse carve-out guarantees, a completion and cost overrun guaranty, as well as a payment guaranty, on the construction financing (with the share of the payment guaranty for each of us and Campus Crest being approximately $24.7 million). As of December 31, 2013, we have funded 100% of our anticipated equity contributions. Construction has already commenced, with a targeted project completion in 2014.

The Parc at Plymouth Meeting Venture

Our 50%-owned unconsolidated real estate venture with Toll Brothers, Inc., a residential home builder, owns a 20-acre parcel of land located in Plymouth Meeting, Pennsylvania, which we contributed to the venture upon its formation in 2012 at a negotiated valuation of $15.5 million. This venture, known as "TB-BDN Plymouth Apartments, L.P.," commenced construction of a 398 unit apartment complex in 2013 and we expect this development to be completed in the fourth quarter of 2015. We expect the project will cost approximately $77.0 million, of which $25.0 million had been funded as of December 31, 2013 through capital contributions to the venture consisting of $15.5 million funded by us through our land contribution and $15.5 million funded by Toll Brothers in cash and net of a $3.0 million excess capital distribution made to each partner in December 2013. We expect to fund a substantial portion of the remaining costs through a $56.0 million secured construction loan. The TB-BDN Plymouth Venture obtained this construction loan in December 2013. In addition to providing the lender a guaranty of 50% of costs overruns on the construction, we have provided the lender a payment guaranty on the loan covering $3.2 million.

BDN Beacon Venture Termination

On March 26, 2013, we sold our entire 20% ownership interest in an unconsolidated real estate venture that had been known as BDN Beacon Venture LLC (the "Beacon Venture"). The carrying amount of our investment in the Beacon Venture was $17.0 million at the sale date, with our share of the sales proceeds effectively matching the carrying amount.

Developments

As of December 31, 2013, we owned 432 acres of undeveloped land, and held options to purchase approximately 51 additional acres of undeveloped land.

We are a party to a development agreement and related ground leases with the University of Pennsylvania covering two adjacent parcels of land. As described above under "evo at Cira Centre South Venture (formerly the Grove Venture)", on January 25, 2013, we contributed our development and ground lease rights in one of the land parcels to the evo at Cira, which has commenced construction of a student housing tower.

As to the other land parcel, we have the right, on terms and conditions in the development agreement and applicable ground lease, to commence development of such other parcel by December 31, 2015. On October 31, 2013, we determined to proceed with development of the Cira Walnut Tower ("Cira Walnut"), which we currently contemplate as a 47-story office and residential tower at 30th and Walnut Streets in Philadelphia. We currently expect Cira Walnut to be ready for initial occupancy during the second quarter of 2016 and to include approximately 575,000 square feet of office space, 245,000 square feet of residential space consisting of 260 market rate finished and unfinished rental apartment units, and 10,000 square feet of retail space, with an additional floor containing a full range of amenities. As of December 31, 2013, we have pre-leased an aggregate of 61% of the office square feet of Cira Walnut. The anchor tenant for approximately 253,000 square feet of this office space under a 16 year lease is FMC Corporation, a diversified chemical company serving agricultural, consumer and industrial markets globally. In addition, we have pre-leased 100,000 square feet of office space to the University of Pennsylvania under a 20-year lease. Cira Walnut will be known as The FMC Tower at Cira Centre South.

We currently anticipate that the office component of the project will cost approximately $236.0 million with the residential and retail components costing approximately $105.0 million for a total project cost of $341.0 million. We intend to fund these development costs through a combination of existing cash balances, capital raised through one or more joint venture formations, proceeds from additional asset sales and equity and debt financing including third party sources. Our current expectation is to either joint venture or pre-sell the residential component of the FMC Tower at Cira Centre South. We have executed a non-binding letter of intent with a residential development and operating company that contemplates either outcome.

Our ground lease with the University of Pennsylvania has a term through July 2097, with a variable rent that would provide the University with a percentage of the cash flow or proceeds of specified capital events subject to receipt of a priority return on eligible investments.

We are currently redeveloping an office property known as 660 West Germantown Pike. This property contains 154,392 net rentable square feet and is located in Plymouth Meeting, Pennsylvania. We acquired this property in 2012 for $9.1 million and we expect to complete its redevelopment in the first quarter of 2014. We expect the total redevelopment costs to be $27.9 million (including the initial acquisition cost), of which $26.7 million had been funded as of December 31, 2013. We expect to fund the balance of the costs with available corporate funds. This property was 80.3% leased at December 31, 2013.

We are currently developing a retail and restaurant complex that will contain 17,884 net rentable square feet complex and will be located on Radnor Chester Road, in Radnor, Pennsylvania. We acquired this property in April 2013 and expect to complete the development in the first quarter of 2014. We expect the total development costs to be $7.4 million (including the land acquisition cost), of which $6.0 million had been funded as of December 31, 2013. We expect to fund the balance of the costs with available corporate funds. This property was 90.7% pre-leased to various tenants at December 31, 2013.

Business Objective and Strategies for Growth

Our business objective is to deploy capital effectively to maximize our return on investment and thereby maximize our total return to shareholders. To accomplish this objective we seek to:

- concentrate on urban town centers and central business districts in selected regions, and be the best of class owner and developer in those markets;
- maximize cash flow through leasing strategies designed to capture rental growth as rental rates increase and as leases are renewed;
- attain a high tenant retention rate by providing a full array of property management and maintenance services and tenant service programs responsive to the varying needs of our diverse tenant base;
- form joint venture opportunities with high-quality partners having attractive real estate holdings or significant financial resources;
- utilize our reputation as a full-service real estate development and management organization to identify acquisition and development opportunities that will expand our business and create long-term value; and
- increase the economic diversification of our tenant base while maximizing economies of scale.

We also consider the following to be important objectives:

- to acquire and develop high-quality office and industrial properties at attractive yields in markets that we expect will experience economic growth and where we can achieve operating efficiencies;
- to monetize or deploy our land inventory for development of high-quality office and industrial properties, or rezone from office/industrial to residential, retail and hotel to align with market and demand shifts as appropriate; and
- to capitalize on our redevelopment expertise to selectively develop, redevelop and reposition properties in desirable locations that other organizations may not have the resources to pursue.

We expect to concentrate our real estate activities in markets where we believe that:

- current and projected market rents and absorption statistics justify construction activity;
- we can maximize market penetration by accumulating a critical mass of properties and thereby enhance operating efficiencies;
- barriers to entry (such as zoning restrictions, utility availability, infrastructure limitations, development moratoriums and limited developable land) will create supply constraints on office and industrial space; and
- there is potential for economic growth, particularly job growth and industry diversification.

Operating Strategy

We currently expect to continue to operate in markets where we have a concentration advantage due to economies of scale. We believe that where possible, it is best to operate with a strong base of properties in order to benefit from the personnel allocation and the market strength associated with managing multiple properties in the same market. We also intend to selectively dispose of properties and redeploy capital if we determine a property cannot meet our long term earnings growth expectations. We believe that recycling capital is an important aspect of maintaining the overall quality of our portfolio.

Our broader strategy remains focused on continuing to enhance liquidity and strengthen our balance sheet through capital retention, debt reduction, targeted sales activity and management of our existing and prospective liabilities.

In the long term, we believe that we are well positioned in our current markets and have the expertise to take advantage of both development and acquisition opportunities, as warranted by market and economic conditions, in new markets that have healthy

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long-term fundamentals and strong growth projections. This capability, combined with what we believe is a conservative financial structure, should allow us to achieve disciplined growth. These abilities are integral to our strategy of having a diverse portfolio of assets, which will meet the needs of our tenants.

We use experienced on site construction superintendents, operating under the supervision of project managers and senior management, to control the construction process and mitigate the various risks associated with real estate development.

In order to fund developments, redevelopments and acquisitions, as well as refurbish and improve existing properties, we must use excess cash from operations after satisfying our dividend and other requirements. The availability of funds for new investments and maintenance of existing properties depends in large measure on capital markets and liquidity factors over which we can exert little control.

Policies With Respect To Certain Activities

The following is a discussion of our investment, financing and other policies. These policies have been determined by our Board of Trustees and our Board of Trustees may revise these policies without a vote of shareholders.

Investments in Real Estate or Interests in Real Estate

We may develop, purchase or lease income-producing properties for long-term investment, expand and improve the properties presently owned or other properties purchased, or sell such properties, in whole or in part, as circumstances warrant. Although there is no limitation on the types of development activities that we may undertake, we expect that our development activities will meet current market demand and will generally be on a build-to-suit basis for particular tenants where a significant portion of the building is pre-leased before construction begins. We continue to participate with other entities in property ownership through existing joint ventures or other types of co-ownership. Our equity investments may be subject to existing or future mortgage financing and other indebtedness that will have priority over our equity investments.

Securities of or Interests in Entities Primarily Engaged in Real Estate Activities and Other Issuers

Subject to the percentage of ownership limitations and gross income tests necessary for REIT qualification, we may invest in securities of other REITs, other entities engaged in real estate activities or securities of other issuers. We may enter into joint ventures or partnerships for the purpose of obtaining an equity interest in a particular property. We do not currently intend to invest in the securities of other issuers except in connection with joint ventures or acquisitions of indirect interests in properties.

Investments in Real Estate Mortgages

While our current portfolio consists of, and our business objectives emphasize, equity investments in commercial real estate, we may, at the discretion of management or our Board of Trustees, invest in other types of equity real estate investments, mortgages and other real estate interests. We do not presently intend to invest to a significant extent in mortgages or deeds of trust, but may invest in participating mortgages if we conclude that we may benefit from the cash flow or any appreciation in the value of the property securing a mortgage. From time to time, we provide seller financing to buyers of our properties. We do this when the buyer requires additional funds for the purchase and provision of seller financing will be beneficial to us and the buyer compared to a mortgage loan from a third party lender.

Dispositions

Our disposition of properties is based upon management’s periodic review of our portfolio and the determination by management or our Board of Trustees that a disposition would be in our best interests. We intend to use selective dispositions to fund our capital and refinancing needs.

Financing Policies

A primary objective of our financing policy has been to manage our financial position to allow us to raise capital from a variety of sources at competitive rates. Our mortgages, credit facilities and unsecured debt securities contain restrictions on our ability to incur indebtedness. Our charter documents do not limit the indebtedness that we may incur. Our financing strategy is to maintain a strong and flexible financial position by limiting our debt to a prudent level and minimizing our variable interest rate exposure. We intend to finance future growth and future maturing debt with the most advantageous source of capital then available to us. These sources may include selling additional common or preferred equity and debt securities through public offerings or private placements, utilizing availability under our credit facilities or incurring additional indebtedness through secured or unsecured borrowings. To qualify as a REIT, we must distribute to our shareholders each year at least ninety percent of our net taxable income, excluding any net capital gain. This distribution requirement limits our ability to fund future capital needs, including for acquisitions

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and developments, from income from operations. Therefore, we expect to continue to rely on third party sources of capital to fund future capital needs.

Guarantees

As of December 31, 2013, we have provide guarantees on behalf of certain of the real estate ventures, consisting of (i) a $24.7 million payment guaranty on the construction loan for the project being undertaken by evo at Cira; (ii) a $3.2 million payment guarantee on the construction loan for a project being undertaken by TB-BDN Plymouth Apartments; and (iii) a $0.5 million payment guarantee on a loan provided to PJP VII. In addition, during construction undertaken by real estate ventures we have provided and expect to continue to provide cost overrun and completion guarantees, with rights of contribution among partners in the venture, as well as customary environmental indemnities and guarantees of customary exceptions to nonrecourse provisions in loan agreements.

Working Capital Reserves

We maintain working capital reserves and access to borrowings in amounts that our management determines to be adequate to meet our normal contingencies.

Policies with Respect to Other Activities

We expect to issue additional common and preferred equity in the future and may authorize our Operating Partnership to issue additional common and preferred units of limited partnership interest, including to persons who contribute their interests in properties to us in exchange for such units. We have not engaged in trading, underwriting or agency distribution or sale of securities of unaffiliated issuers and we do not intend to do so. We intend to make investments consistent with our qualification as a REIT, unless because of circumstances or changes in the Internal Revenue Code of 1986, as amended (or the Treasury Regulations), our Board of Trustees determines that it is no longer in our best interests to qualify as a REIT. We may make loans to third parties, including to joint ventures in which we participate and to buyers of our real estate. We intend to make investments in such a way that we will not be treated as an investment company under the Investment Company Act of 1940.

Management Activities

We provide third-party real estate management services primarily through wholly-owned subsidiaries of the Operating Partnership (collectively, the “Management Companies”). As of December 31, 2013, the Management Companies were managing properties containing an aggregate of approximately 32.7 million net rentable square feet, of which approximately 24.8 million net rentable square feet related to properties owned by us and approximately 7.9 million net rentable square feet related to properties owned by third parties and unconsolidated Real Estate Ventures.

Geographic Segments

During the year ended December 31, 2013, we were managing our portfolio within seven segments: (1) Pennsylvania Suburbs, (2) Philadelphia Central Business District (“CBD”), (3) Metropolitan Washington D.C., (4) New Jersey/Delaware, (5) Richmond, Virginia, (6) Austin, Texas and (7) California. The Pennsylvania Suburbs segment includes properties in Chester, Delaware, and Montgomery counties in the Philadelphia suburbs. The Philadelphia CBD segment includes properties located in the City of Philadelphia in Pennsylvania. The Metropolitan Washington, D.C. segment includes properties in Northern Virginia and southern Maryland. The New Jersey/Delaware segment includes properties in Burlington and Camden counties in New Jersey and New Castle county in the state of Delaware. The Richmond, Virginia segment includes properties primarily in Albemarle, Chesterfield, Goochland and Henrico counties and one property in Durham, North Carolina. The Austin, Texas segment includes properties in Austin. On October 16, 2013 seven properties within the Austin portfolio were contributed to a newly formed real estate venture. After contributing the properties, the Company wholly owns one property in Austin, Texas. The California segment includes properties in Oakland, Concord, and Carlsbad. Our corporate group is responsible for cash and investment management, development of certain real estate properties during the construction period, and certain other general support functions.

Competition

The real estate business is highly competitive. Our Properties compete for tenants with similar properties primarily on the basis of location, total occupancy costs (including base rent and operating expenses), services provided, and the design and condition of the improvements. We also face competition when attempting to acquire or develop real estate, including competition from domestic and foreign financial institutions, other REITs, life insurance companies, pension funds, partnerships and individual investors. Additionally, our ability to compete depends upon trends in the economies of our markets, investment alternatives, financial condition and operating results of current and prospective tenants, availability and cost of capital, construction and renovation costs, land availability, our ability to obtain necessary construction approvals, taxes, governmental regulations, legislation and population trends.

Insurance

We maintain commercial general liability and “all risk” property insurance on our properties. We intend to obtain similar coverage for properties we acquire in the future. There are types of losses, generally of a catastrophic nature, such as losses from war, terrorism, environmental issues, floods, hurricanes and earthquakes that are subject to limitations in certain areas or which may be uninsurable risks. We exercise our discretion in determining amounts, coverage limits and deductibility provisions of insurance, with a view to maintaining appropriate insurance on our investments at a reasonable cost and on suitable terms. If we suffer a substantial loss, our insurance coverage may not be sufficient to pay the full current market value or current replacement cost of our lost investment. Inflation, changes in building codes and ordinances, environmental considerations and other factors also might make it impractical to use insurance proceeds to fully replace or restore a property after it has been damaged or destroyed.

Employees

As of December 31, 2013, we had 406 full-time employees, including 20 union employees.

Government Regulations Relating to the Environment

Many laws and governmental regulations relating to the environment apply to us and changes in these laws and regulations, or their interpretation by agencies and the courts, occur frequently and may adversely affect us.

Existing conditions at some of our Properties. Independent environmental consultants have conducted Phase I or similar environmental site assessments on our Properties. We generally obtain these assessments prior to the acquisition of a property and may later update them as required for subsequent financing of the property or as requested by a tenant. Site assessments are generally performed to ASTM standards then existing for Phase I site assessments, and typically include a historical review, a public records review, a visual inspection of the surveyed site, and the issuance of a written report. These assessments do not generally include any soil samplings or subsurface investigations. Depending on the age of the property, the Phase I may have included an assessment of asbestos-containing materials. For properties where asbestos-containing materials were identified or suspected, an operations and maintenance plan was generally prepared and implemented. See Note 2 to our consolidated financial statements for our evaluation in accordance with the accounting standard governing asset retirement obligations.

Historical operations at or near some of our Properties, including the operation of underground storage tanks, may have caused soil or groundwater contamination. We are not aware of any such condition, liability or concern by any other means that would give rise to material, uninsured environmental liability. However, the assessments may have failed to reveal all environmental conditions, liabilities or compliance concerns; there may be material environmental conditions, liabilities or compliance concerns that a review failed to detect or which arose at a property after the review was completed; future laws, ordinances or regulations may impose material additional environmental liability; and current environmental conditions at our Properties may be affected in the future by tenants, third parties or the condition of land or operations near our Properties, such as the presence of underground storage tanks. We cannot be certain that costs of future environmental compliance will not affect our ability to make distributions to our shareholders.

Use of hazardous materials by some of our tenants. Some of our tenants handle hazardous substances and wastes on our Properties as part of their routine operations. Environmental laws and regulations may subject these tenants, and potentially us, to liability resulting from such activities. We generally require our tenants, in their leases, to comply with these environmental laws and regulations and to indemnify us for any related liabilities. These tenants are primarily involved in the life sciences and the light industrial and warehouse businesses. We are not aware of any material noncompliance, liability or claim relating to hazardous or toxic substances or petroleum products in connection with any of our Properties, and we do not believe that on-going activities by our tenants will have a material adverse effect on our operations.

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Costs related to government regulation and private litigation over environmental matters. Under environmental laws and regulations, we may be liable for the costs of removal, remediation or disposal of hazardous or toxic substances present or released on our Properties. These laws could impose liability without regard to whether we are responsible for, or knew of, the presence or release of the hazardous materials. Government investigations and remediation actions may entail substantial costs and the presence or release of hazardous substances on a property could result in governmental cleanup actions or personal injury or similar claims by private plaintiffs.

Potential environmental liabilities may exceed our environmental insurance coverage limits. We carry what we believe to be sufficient environmental insurance to cover potential liability for soil and groundwater contamination, mold impact, and the presence of asbestos-containing materials at the affected sites identified in our environmental site assessments. Our insurance policies are subject to conditions, qualifications and limitations. Therefore, we cannot provide any assurance that our insurance coverage will be sufficient to cover all liabilities for losses.

Potential environmental liabilities may adversely impact our ability to use or sell assets. The presence of contamination or the failure to remediate contamination may impair our ability to sell or lease real estate or to borrow using the real estate as collateral.

Code of Conduct

We maintain a Code of Business Conduct and Ethics applicable to our Board of Trustees and all of our officers and employees, including our principal executive officer, principal financial officer, principal accounting officer, controller and persons performing similar functions. A copy of our Code of Business Conduct and Ethics is available on our website, www.brandywinerealty.com. In addition to being accessible through our website, copies of our Code of Business Conduct and Ethics can be obtained, free of charge, upon written request to Investor Relations, 555 East Lancaster Avenue, Suite 100, Radnor, PA 19087. Any amendments to or waivers of our Code of Business Conduct and Ethics that apply to our principal executive officer, principal financial officer, principal accounting officer, controller and persons performing similar functions and that relate to any matter enumerated in Item 406(b) of Regulation S-K promulgated by the SEC will be disclosed on our website.

Corporate Governance Principles and Board Committee Charters

Our Corporate Governance Principles and the charters of the Executive Committee, Audit Committee, Compensation Committee and Corporate Governance Committee of the Board of Trustees of Brandywine Realty Trust and additional information regarding our corporate governance are available on our website, www.brandywinerealty.com. In addition to being accessible through our website, copies of our Corporate Governance Principles and charters of our Board Committees can be obtained, free of charge, upon written request to Investor Relations, 555 Lancaster Avenue, Suite 100, Radnor, PA 19087.

Availability of SEC Reports

We file annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and other information with the SEC. Members of the public may read and copy materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Members of the public may also obtain information on the Public Reference Room by calling the SEC at 1-800-732-0330. The SEC also maintains an Internet web site that contains reports, proxy and information statements and other information regarding issuers, including us, that file electronically with the SEC. The address of that site is http://www.sec.gov. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and other information filed by us with the SEC are available, without charge, on our Internet web site, http://www.brandywinerealty.com as soon as reasonably practicable after they are filed electronically with the SEC. Copies are also available, free of charge, upon written request to Investor Relations, Brandywine Realty Trust, 555 East Lancaster Avenue, Suite 100, Radnor, PA 19087.

Item 1A. Risk Factors

Our business, financial condition, results from operations and ability to make distributions on our equity and to pay debt service on our indebtedness may be affected by the risk factors set forth below. All investors should consider the following risk factors before deciding to purchase our securities.

Adverse economic and geopolitical conditions could have a material adverse effect on our results of operations, financial condition and our ability to pay distributions to you.

Our business is affected by the ongoing recovery in the global economy, and other market or economic challenges experienced by the U.S. economy or the real estate industry as a whole. While there are signs of recovery in the U.S. economy, the recovery rate has been much slower than anticipated. Our portfolio consists primarily of office buildings (as compared to a more diversified real estate portfolio); if economic conditions again deteriorate, our results of operations, financial condition, financial results and

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ability to service current debt and to pay distributions to our shareholders may be adversely affected by the following, among other potential conditions:

- significant job losses in the financial and professional services industries may occur, which may decrease demand for our office space, causing market rental rates and property values to be negatively impacted;
- our ability to borrow on terms and conditions that we find acceptable, or at all, may be limited, which could reduce our ability to complete development opportunities and refinance existing debt;
- reduced values of our properties may limit our ability to dispose of assets at attractive prices or to obtain debt financing secured by our properties and may reduce the availability of unsecured loans;
- the value and liquidity of our short-term investments and cash deposits could be reduced as a result of a deterioration of the financial condition of the institutions that hold our cash deposits or the institutions or assets in which we have made short-term investments, the dislocation of the markets for our short-term investments, increased volatility in market rates for such investments or other factors;
- reduced liquidity in debt markets and increased credit risk premiums for certain market participants may impair our ability to access capital;
- one or more lenders under our line of credit could refuse or be unable to fund their financing commitment to us and we may not be able to replace the financing commitment of any such lenders on favorable terms, or at all; and
- the value of our investments could deteriorate and we could be required to reduce the carrying value of our equity method investments if a loss in the carrying value of the investment is other than a temporary decline pursuant to the accounting standard governing the equity method of accounting.

These conditions, which could have a material adverse effect on our results of operations, financial condition and ability to pay distributions, may continue or worsen in the future.

Our performance is subject to risks associated with our properties and with the real estate industry.

Our economic performance and the value of our real estate assets, and consequently the value of our securities, are subject to the risk that if our properties do not generate revenues sufficient to meet our operating expenses, including debt service and capital expenditures, our cash flow and ability to pay distributions to our shareholders will be adversely affected. Events or conditions beyond our control that may adversely affect our operations or the value of our properties include:

- downturns in the national, regional and local economic climate including increases in the unemployment rate and inflation;
- competition from other office, mixed-use, industrial and commercial buildings;
- local real estate market conditions, such as oversupply or reduction in demand for office, industrial or commercial space;
- changes in interest rates and availability of financing;
- vacancies, changes in market rental rates and the need to periodically repair, renovate and re-lease space;
- increased operating costs, including insurance expense, utilities, real estate taxes, janitorial costs, state and local taxes, labor shortages and heightened security costs;
- civil disturbances, earthquakes and other natural disasters, or terrorist acts or acts of war which may result in uninsured or underinsured losses;
- significant expenditures associated with each investment, such as debt service payments, real estate taxes, insurance and maintenance costs which are generally not reduced when circumstances cause a reduction in revenues from a property; and
- declines in the financial condition of our tenants and our ability to collect rents from our tenants.

We face risks associated with the development of mixed-use commercial properties.

We operate, are currently developing, and may in the future develop, properties either alone or through joint ventures with other persons that are known as “mixed-use” developments. This means that in addition to the development of office space, the project may also include space for residential, retail, hotel or other commercial purposes. We have limited experience in developing and managing non-office real estate. As a result, if a development project includes a non-office or non-retail use, we may seek to develop that component ourselves, sell the rights to that component to a third-party developer with experience in that use or we may seek to partner with such a developer. If we do not sell the rights or partner with such a developer, or if we choose to develop the other component ourselves, we would be exposed not only to those risks typically associated with the development of commercial real estate generally, but also to specific risks associated with the development and ownership of non-office and non-retail real estate. In addition, even if we sell the rights to develop certain components or elect to participate in the development through a joint venture, we may be exposed to the risks associated with the failure of the other party to complete the development as expected. These include the risk that the other party would default on its obligations necessitating that we complete the other component ourselves (including providing any necessary financing). In the case of residential properties, these risks include competition for prospective residents from other operators whose properties may be perceived to offer a better location or better amenities or whose rent may be perceived as a better value given the quality, location and amenities that the resident seeks. Because we have limited experience with residential properties, we expect to retain third parties to manage our residential properties. If we decide to not sell or participate in a joint venture and instead hire a third party manager, we would be dependent on them and their key personnel who provide services to us and we may not find a suitable replacement if the management agreement is terminated, or if key personnel leave or otherwise become unavailable to us.

We may suffer adverse consequences due to the financial difficulties, bankruptcy or insolvency of our tenants.

The current economic conditions have caused some of our tenants to experience financial difficulties. If more of our tenants were to continue to experience financial difficulties, including bankruptcy, insolvency or a general downturn in their business, there could be an adverse effect on our financial performance and distributions to shareholders. We cannot assure you that any tenant that files for bankruptcy protection will continue to pay us rent. A bankruptcy filing by or relating to one of our tenants or a lease guarantor would bar efforts by us to collect pre-bankruptcy debts from that tenant or lease guarantor, or its property, unless we receive an order permitting us to do so from the bankruptcy court. In addition, we cannot evict a tenant solely because of bankruptcy. The bankruptcy of a tenant or lease guarantor could delay our efforts to collect past due balances under the relevant leases, and could ultimately preclude collection of these sums. If a lease is assumed by the tenant in bankruptcy, all pre-bankruptcy balances due under the lease must be paid to us in full. If, however, a lease is rejected by a tenant in bankruptcy, we would have only a general, unsecured claim for damages. Any such unsecured claim would only be paid to the extent that funds are available and only in the same percentage as is paid to all other holders of general, unsecured claims. Restrictions under the bankruptcy laws further limit the amount of any other claims that we can make if a lease is rejected. As a result, it is likely that we would recover substantially less than the full value of the remaining rent during the term. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors that May Influence Future Results of Operations - Tenant Credit Risk."

An increase in interest rates would increase our interest costs on variable rate debt and could adversely impact our ability to refinance existing debt or sell assets on favorable terms or at all.

As of December 31, 2013 we had $100.0 million of unhedged variable rate indebtedness and may incur additional such indebtedness in the future. If interest rates increase, then so would the interest costs on our unhedged variable rate debt, which could adversely affect our cash flow and our ability to pay principal and interest on our debt and our ability to make distributions to our shareholders. Further, rising interest rates could limit our ability to refinance existing debt when it matures or significantly increase our future interest expense. From time to time, we enter into interest rate swap agreements and other interest rate hedging contracts. While these agreements are intended to lessen the impact of rising interest rates on us, they also expose us to the risk that the other parties to the agreements will not perform, we could incur significant costs associated with the settlement of the agreements, the agreements will be unenforceable and the underlying transactions will fail to qualify as highly-effective cash flow hedges under the applicable accounting guidance. In addition, an increase in interest rates could decrease the amounts third-parties are willing to pay for our assets, thereby limiting our ability to change our portfolio promptly in response to changes in economic or other conditions.

Our degree of leverage could limit our ability to obtain additional financing or affect the market price of our equity shares or debt securities.

Like other real estate companies which incur debt, we are subject to risks associated with debt financing, such as the insufficiency of cash flow to meet required debt service payment obligations and the inability to refinance existing indebtedness. If our debt cannot be paid, refinanced or extended at maturity, we may not be able to make distributions to shareholders at expected levels or at all. Furthermore, an increase in our interest expense could adversely affect our cash flow and ability to make distributions to shareholders. If we do not meet our debt service obligations, any properties securing such indebtedness could be foreclosed on, which would have a material adverse effect on our cash flow and ability to make distributions and, depending on the number of properties foreclosed on, could threaten our continued viability. Our degree of leverage could also make us more vulnerable to a downturn in business or the economy in general.

The terms and covenants relating to our indebtedness could adversely impact our economic performance.

Our credit facilities, term loans and the indenture governing our unsecured public debt securities contain (and any new or amended facility and term loans will contain) restrictions, requirements and other limitations on our ability to incur indebtedness, including total debt to asset ratios, secured debt to total asset ratios, debt service coverage ratios and minimum ratios of unencumbered assets to unsecured debt which we must maintain. Our ability to borrow under our credit facilities is subject to compliance with such financial and other covenants. In the event that we fail to satisfy these covenants, we would be in default under the credit facilities, the term loans and the indenture and may be required to repay such debt with capital from other sources. Under such circumstances, other sources of capital may not be available to us, or may be available only on unattractive terms. In addition, the mortgages on

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our properties contain customary covenants such as those that limit our ability, without the prior consent of the lender, to further mortgage the applicable property or to discontinue insurance coverage. If we breach covenants in our secured debt agreements, the lenders can declare a default and take possession of the property securing the defaulted loan.

A downgrading of our debt could subject us to higher borrowing costs.

In the event that our unsecured debt is downgraded by Moody’s Investor Services and Standard & Poor’s from the current ratings, we would likely incur higher borrowing costs and the market prices of our common shares and debt securities might decline.

We may experience increased operating costs, which might reduce our profitability.

Our properties are subject to increases in operating expenses such as for cleaning, electricity, heating, ventilation and air conditioning, administrative costs and other costs associated with security, landscaping and repairs and maintenance of our properties. In general, under our leases with tenants, we pass through all or a portion of these costs to them. We cannot assure you, however, that tenants will actually bear the full burden of these higher costs, or that such increased costs will not lead them, or other prospective tenants, to seek office space elsewhere. If operating expenses increase, the availability of other comparable office space in our core geographic markets might limit our ability to increase rents; if operating expenses increase without a corresponding increase in revenues, our profitability could diminish and limit our ability to make distributions to shareholders.

Our investment in property development or redevelopment may be more costly or difficult to complete than we anticipate.

We intend to continue to develop properties where market conditions warrant such investment. Once made, these investments may not produce results in accordance with our expectations. Risks associated with our development and construction activities include:

- the unavailability of favorable financing alternatives in the private and public debt markets;
- having sufficient capital to pay development costs;
- dependence on the financial and professional services sector as part of our tenant base;
- construction costs exceeding original estimates due to rising interest rates, diminished availability of materials and labor, and increases in the costs of materials and labor;
- construction and lease-up delays resulting in increased debt service, fixed expenses and construction or renovation costs;
- expenditure of funds and devotion of management’s time to projects that we do not complete;
- the unavailability or scarcity of utilities;
- occupancy rates and rents at newly completed properties may fluctuate depending on a number of factors, including market and economic conditions, resulting in lower than projected rental rates and a corresponding lower return on our investment;
- complications (including building moratoriums and anti-growth legislation) in obtaining necessary zoning, occupancy and other governmental permits; and
- increased use restrictions by local zoning or planning authorities limiting our ability to develop and impacting the size of developments.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors that May Influence Future Results of Operations - Development Risk."

We face risks associated with property acquisitions.

We have recently acquired properties, and may in the future continue to acquire properties and portfolios of properties, including large portfolios that would increase our size and potentially alter our capital structure. Although we believe that the acquisitions that we have completed and that we expect to undertake in the future have, and will, enhance our future financial performance, the success of such transactions is subject to a number of factors, including the risks that:

- we may not be able to obtain financing for acquisitions on favorable terms;
- acquired properties may fail to perform as expected;
- the actual costs of repositioning or redeveloping acquired properties may be higher than our estimates;
- acquired properties may be located in new markets where we may have limited knowledge and understanding of the local economy, an absence of business relationships in the area or unfamiliarity with local governmental and permitting procedures; and
- we may not be able to efficiently integrate acquired properties, particularly portfolios of properties, into our organization and manage new properties in a way that allows us to realize cost savings and synergies.

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Acquired properties may subject us to known and unknown liabilities.

Properties that we acquire may be subject to known and unknown liabilities for which we would have no recourse, or only limited recourse, to the former owners of such properties. As a result, if a liability were asserted against us based upon ownership of an acquired property, we might be required to pay significant sums to settle it, which could adversely affect our financial results and cash flow. Unknown liabilities relating to acquired properties could include:

- liabilities for clean-up of pre-existing disclosed or undisclosed environmental contamination;
- claims by tenants, vendors or other persons arising on account of actions or omissions of the former owners of the properties; and
- liabilities incurred in the ordinary course of business.

The acquisition of new properties or the development of new properties which lack operating history with us may give rise to difficulties in predicting revenue potential.

New acquisitions and developments could fail to perform in accordance with expectations. If we fail to accurately estimate occupancy levels, operating costs or costs of improvements to bring an acquired property or a development property up to the standards established for our intended market position, the performance of the property may be below expectations. Acquired properties may have characteristics or deficiencies affecting their valuation or revenue potential that we have not yet discovered. We cannot assure you that the performance of properties acquired or developed by us will increase or be maintained under our management.

We have agreed not to sell certain of our properties and to maintain indebtedness subject to guarantees.

We acquired in the past and in the future may acquire properties or portfolios of properties through tax deferred contribution transactions in exchange for partnership interests in our Operating Partnership. This acquisition structure has the effect, among other factors, of reducing the amount of tax depreciation we can deduct over the tax life of the acquired properties, and typically requires that we agree to protect the contributors' ability to defer recognition of taxable gain through restrictions on our ability to dispose of the acquired properties and/or the allocation of partnership debt to the contributors to maintain their tax bases. We agreed not to sell some of our properties for varying periods of time, in transactions that would trigger taxable income to the former owners, and we may enter into similar arrangements as a part of future property acquisitions. These agreements generally provide that we may dispose of the subject properties only in transactions that qualify as tax-free exchanges under Section 1031 of the Internal Revenue Code or in other tax deferred transactions. Such transactions can be difficult to complete and can result in the property acquired in exchange for the disposed of property inheriting the tax attributes (including tax protection covenants) of the sold property. Violation of these tax protection agreements would impose significant costs on us. As a result, we are restricted with respect to decisions related to financing, encumbering, expanding or selling these properties. These restrictions on dispositions could limit our ability to sell an asset or pay down partnership debt during a specified time, or on terms, that would be favorable absent such restrictions.

We have also entered into agreements that provide prior owners of properties with the right to guarantee specific amounts of indebtedness and, in the event that the specific indebtedness that they guarantee is repaid or reduced, we would be required to provide substitute indebtedness for them to guarantee. These agreements may hinder actions that we may otherwise desire to take to repay or refinance guaranteed indebtedness because we would be required to make payments to the beneficiaries of such agreements if we violate these agreements.

We may be unable to renew leases or re-lease space as leases expire; certain leases may expire early.

If tenants do not renew their leases upon expiration, we may be unable to re-lease the space. Even if the tenants do renew their leases or if we can re-lease the space, the terms of renewal or re-leasing (including the cost of required renovations) may be less favorable than the current lease terms. Certain leases grant the tenants an early termination right upon payment of a termination penalty or if we fail to comply with certain material lease terms. Our inability to renew or release spaces and the early termination of certain leases could affect our ability to make distributions to shareholders. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors that May Influence Future Results of Operations - Tenant Rollover Risk."

We face significant competition from other real estate developers.

We compete with real estate developers, operators and institutions for tenants and acquisition and development opportunities. Some of these competitors may have significantly greater financial resources than we have. Such competition may reduce the number of suitable investment opportunities available to us, may interfere with our ability to attract and retain tenants and may increase vacancies, which could result in increased supply and lower market rental rates, reducing our bargaining leverage and adversely affect our ability to improve our operating leverage. In addition, some of our competitors may be willing (e.g., because their properties may have vacancy rates higher than those for our properties) to make space available at lower rental rates or with higher tenant concession percentages than available space in our properties. We cannot assure you that this competition will not adversely affect our cash flow and our ability to make distributions to shareholders.

Property ownership through joint ventures may limit our ability to act exclusively in our interest.

We develop, acquire, and contribute properties in joint ventures with other persons or entities when we believe circumstances warrant the use of such structures. As of December 31, 2013, we had net investments totaling $180.5 million in 17 unconsolidated Real Estate Ventures. We could become engaged in a dispute with one or more of our joint venture partners that might affect our ability to operate a jointly-owned property. Moreover, our joint venture partners may, at any time, have business, economic or other objectives that are inconsistent with our objectives, including objectives that relate to the appropriate timing and terms of any sale or refinancing of a property. In some instances, our joint venture partners may have competing interests in our markets that could create conflicts of interest. If the objectives of our joint venture partners or the lenders to our joint ventures are inconsistent with our own objectives, we may not be able to act exclusively in our interests.

Because real estate is illiquid, we may not be able to sell properties when in our best interest.

Real estate investments generally, and in particular large office and industrial/flex properties like those that we own, often cannot be sold quickly. The capitalization rates at which properties may be sold could be higher than historic rates, thereby reducing our potential proceeds from sale. Consequently, we may not be able to alter our portfolio promptly in response to changes in economic or other conditions. In addition, the Internal Revenue Code limits our ability to sell properties that we have held for fewer than two years without potential adverse consequences to our shareholders. Furthermore, properties that we have developed and have owned for a significant period of time or that we acquired in exchange for partnership interests in the Operating Partnership often have a low tax basis. If we were to dispose of any of these properties in a taxable transaction, we may be required under provisions of the Internal Revenue Code applicable to REITs to distribute a significant amount of the taxable gain to our shareholders and this could, in turn, impact our cash flow. In some cases, tax protection agreements with third parties will prevent us from selling certain properties in a taxable transaction without incurring substantial costs. In addition, purchase options and rights of first refusal held by tenants or partners in joint ventures may also limit our ability to sell certain properties. All of these factors reduce our ability to respond to changes in the performance of our investments and could adversely affect our cash flow and ability to make distributions to shareholders as well as the ability of someone to purchase us, even if a purchase were in our shareholders' best interests.

Some potential losses are not covered by insurance.

We currently carry comprehensive "all-risk" property, and rental loss insurance and commercial general liability coverage on all of our properties. We believe the policy specifications and insured limits of these policies are adequate and appropriate. There are, however, types of losses, such as lease and other contract claims, biological, radiological and nuclear hazards and acts of war that generally are not insured. We cannot assure you that we will be able to renew insurance coverage in an adequate amount or at reasonable prices. In addition, insurance companies may no longer offer coverage against certain types of losses, such as losses due to earthquake, terrorist acts and mold, flood, or, if offered, these types of insurance may be prohibitively expensive. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenue from the property. In such an event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property. We cannot assure you that material losses in excess of insurance proceeds will not occur in the future. If any of our properties were to experience a catastrophic loss, it could seriously disrupt our operations, delay revenue and result in large expenses to repair or rebuild the property. Such events could adversely affect our cash flow and ability to make distributions to shareholders. If one or more of our insurance providers were to fail to pay a claim as a result of insolvency, bankruptcy or otherwise, the nonpayment of such claims could have an adverse effect on our financial condition and results of operations. In addition, if one or more of our insurance providers were to become subject to insolvency, bankruptcy or other proceedings and our insurance policies with the provider were terminated or cancelled as a result of those proceedings, we cannot guarantee that we would be able to find alternative coverage in adequate amounts or at reasonable prices. In such case, we could experience a lapse in any or adequate insurance coverage with respect to one or more properties and be exposed to potential losses relating to any claims that may arise during such period of lapsed or inadequate coverage.

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Terrorist attacks and other acts of violence or war may adversely impact our performance and may affect the markets on which our securities are traded.

Terrorist attacks against our properties, or against the United States or our interests, may negatively impact our operations and the value of our securities. Attacks or armed conflicts could result in increased operating costs; for example, it might cost more in the future for building security, property and casualty insurance, and property maintenance. As a result of terrorist activities and other market conditions, the cost of insurance coverage for our properties could also increase. We might not be able to pass through the increased costs associated with such increased security measures and insurance to our tenants, which could reduce our profitability and cash flow. Furthermore, any terrorist attacks or armed conflicts could result in increased volatility in or damage to the United States and worldwide financial markets and economy. Such adverse economic conditions could affect the ability of our tenants to pay rent and our cost of capital, which could have a negative impact on our results.

Our ability to make distributions is subject to various risks.

Historically, we have paid quarterly distributions to our shareholders. Our ability to make distributions in the future will depend upon:

- the operational and financial performance of our properties;
- capital expenditures with respect to existing, developed and newly acquired properties;
- general and administrative costs associated with our operation as a publicly-held REIT;
- the amount of, and the interest rates on, our debt; and
- the absence of significant expenditures relating to environmental and other regulatory matters.

Certain of these matters are beyond our control and any significant difference between our expectations and actual results could have a material adverse effect on our cash flow and our ability to make distributions to shareholders.

Changes in the tax rates and regulatory requirements may adversely affect our cash flow.

Because increases in income and service taxes are generally not passed through to tenants under leases, such increases may adversely affect our cash flow and ability to make expected distributions to shareholders. Our properties are also subject to various regulatory requirements, such as those relating to the environment, fire and safety. Our failure to comply with these requirements could result in the imposition of fines and damage awards and could result in a default under some of our tenant leases. Moreover, the costs to comply with any new or different regulations could adversely affect our cash flow and our ability to make distributions. Although we believe that our properties are in material compliance with all such requirements, we cannot assure you that these requirements will not change or that newly imposed requirements will not require significant expenditures in order to be compliant.

Potential liability for environmental contamination could result in substantial costs.

Under various federal, state and local laws, ordinances and regulations, we may be liable for the costs to investigate and remove or remediate hazardous or toxic substances on or in our properties, often regardless of whether we know of or are responsible for the presence of these substances. These costs may be substantial. While we do maintain environmental insurance, we cannot be assured that our insurance coverage will be sufficient to protect us from all of the aforesaid remediation costs. Also, if hazardous or toxic substances are present on a property, or if we fail to properly remediate such substances, our ability to sell or rent the property or to borrow using that property as collateral may be adversely affected.

Other laws and regulations govern indoor and outdoor air quality including those that can require the abatement or removal of asbestos-containing materials in the event of damage, demolition, renovation or remodeling and also govern emissions of and exposure to asbestos fibers in the air. The maintenance and removal of lead paint and certain electrical equipment containing polychlorinated biphenyls (PCBs) and underground storage tanks are also regulated by federal and state laws. We are also subject to risks associated with human exposure to chemical or biological contaminants such as molds, pollens, viruses and bacteria which, above certain levels, can be alleged to be connected to allergic or other health effects and symptoms in susceptible individuals. We could incur fines for environmental compliance and be held liable for the costs of remedial action with respect to the foregoing regulated substances or tanks or related claims arising out of environmental contamination or human exposure to contamination at or from our properties.

Additionally, we develop, manage, lease and/or operate various properties for third parties. Consequently, we may be considered to have been or to be an operator of these properties and, therefore, potentially liable for removal or remediation costs or other potential costs that could relate to hazardous or toxic substances.

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An earthquake or other natural disasters could adversely affect our business.
Some of our properties are located in California which is a high risk geographical area for earthquakes or other natural disasters. Depending upon its magnitude, an earthquake could severely damage our properties which would adversely affect our business. We maintain earthquake insurance for our California properties and the resulting business interruption. We cannot assure that our insurance will be sufficient if there is a major earthquake.
Americans with Disabilities Act compliance could be costly.
The Americans with Disabilities Act of 1990, as amended ("ADA"), requires that all public accommodations and commercial facilities, including office buildings, meet certain federal requirements related to access and use by disabled persons. Compliance with ADA requirements could involve the removal of structural barriers from certain disabled persons' entrances which could adversely affect our financial condition and results of operations. Other federal, state and local laws may require modifications to or restrict further renovations of our properties with respect to such accesses. Although we believe that our properties are in material compliance with present requirements, noncompliance with the ADA or similar or related laws or regulations could result in the United States government imposing fines or private litigants being awarded damages against us. In addition, changes to existing requirements or enactments of new requirements could require significant expenditures. Such costs may adversely affect our cash flow and ability to make distributions to shareholders.
Failure to qualify as a REIT would subject us to U.S. federal income tax which would reduce the cash available for distribution to our shareholders.
We operate our business to qualify to be taxed as a REIT for federal income tax purposes. We have not requested and do not plan to request a ruling from the IRS that we qualify as a REIT, and the statements in this Report are not binding on the IRS or any court. As a REIT, we generally will not be subject to federal income tax on the income that we distribute currently to our shareholders. Many of the REIT requirements, however, are highly technical and complex. The determination that we are a REIT requires an analysis of various factual matters and circumstances that may not be totally within our control. For example, to qualify as a REIT, at least 95% of our gross income must come from specific passive sources, such as rent, that are itemized in the REIT tax laws. In addition, to qualify as a REIT, we cannot own specified amounts of debt and equity securities of some issuers. We also are required to distribute to our shareholders with respect to each year at least 90% of our REIT taxable income (excluding net capital gains). The fact that we hold substantially all of our assets through the Operating Partnership and its subsidiaries and joint ventures further complicates the application of the REIT requirements for us. Even a technical or inadvertent mistake could jeopardize our REIT status and, given the highly complex nature of the rules governing REITs and the ongoing importance of factual determinations, we cannot provide any assurance that we will continue to qualify as a REIT. Furthermore, Congress and the IRS might make changes to the tax laws and regulations, and the courts might issue new rulings, that make it more difficult, or impossible, for us to remain qualified as a REIT. If we fail to qualify as a REIT for federal income tax purposes and are able to avail ourselves of one or more of the statutory savings provisions in order to maintain our REIT status, we would nevertheless be required to pay penalty taxes of $50,000 or more for each such failure.
If we fail to qualify as a REIT for federal income tax purposes, and are unable to avail ourselves of certain savings provisions set forth in the Internal Revenue Code, we would be subject to federal income tax at regular corporate rates on all of our income. As a taxable corporation, we would not be allowed to take a deduction for distributions to shareholders in computing our taxable income or pass through long term capital gains to individual shareholders at favorable rates. We also could be subject to the federal alternative minimum tax and possibly increased state and local taxes. We would not be able to elect to be taxed as a REIT for four years following the year we first failed to qualify unless the IRS were to grant us relief under certain statutory provisions. If we failed to qualify as a REIT, we would have to pay significant income taxes, which would reduce our net earnings available for investment or distribution to our shareholders. This likely would have a significant adverse effect on our earnings and likely would adversely affect the value of our securities. In addition, we would no longer be required to pay any distributions to shareholders.
Failure of the Operating Partnership (or a subsidiary partnership or joint venture) to be treated as a partnership would have serious adverse consequences to our shareholders.

If the IRS were to successfully challenge the tax status of the Operating Partnership or any of its subsidiary partnerships or joint ventures for federal income tax purposes, the Operating Partnership or the affected subsidiary partnership or joint venture would be taxable as a corporation. In such event we would cease to qualify as a REIT and the imposition of a corporate tax on the Operating Partnership, subsidiary partnership or joint venture would reduce the amount of cash available for distribution from the Operating Partnership to us and ultimately to our shareholders.

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To maintain our REIT status, we may be forced to borrow funds on a short term basis during unfavorable market conditions.

As a REIT, we are subject to certain distribution requirements, including the requirement to distribute 90% of our REIT taxable income. That may result in our having to make distributions at a disadvantageous time or to borrow funds at unfavorable rates. Compliance with this requirement may hinder our ability to operate solely on the basis of maximizing profits.

We will pay some taxes even if we qualify as a REIT, which will reduce the cash available for distribution to our shareholders.

Even if we qualify as a REIT for federal income tax purposes, we will be required to pay certain federal, state and local taxes on our income and property. For example, we will be subject to income tax to the extent we distribute less than 100% of our REIT taxable income, including capital gains. Additionally, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which dividends paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years. Moreover, if we have net income from “prohibited transactions,” that income will be subject to a 100% penalty tax. In general, prohibited transactions are sales or other dispositions of property held primarily for sale to customers in the ordinary course of business. The determination as to whether a particular sale is a prohibited transaction depends on the facts and circumstances related to that sale. We cannot guarantee that sales of our properties would not be prohibited transactions unless we comply with certain statutory safe-harbor provisions.

In addition, any net taxable income earned directly by our taxable REIT subsidiaries, or through entities that are disregarded for federal income tax purposes as entities separate from our taxable REIT subsidiaries, will be subject to federal and possibly state corporate income tax. In this regard, several provisions of the laws applicable to REITs and their subsidiaries ensure that a taxable REIT subsidiary will be subject to an appropriate level of federal income taxation. For example, a taxable REIT subsidiary is limited in its ability to deduct certain interest payments made to an affiliated REIT. In addition, the REIT has to pay a 100% penalty tax on some payments that it receives or on some deductions taken by a taxable REIT subsidiary if the economic arrangements between the REIT, the REIT’s customers, and the taxable REIT subsidiary are not comparable to similar arrangements between unrelated parties. Finally, some state and local jurisdictions may tax some of our income even though as a REIT we are not subject to federal income tax on that income because not all states and localities follow the federal income tax treatment of REITs. To the extent that we and our affiliates are required to pay federal, state and local taxes, we will have less cash available for distributions to our shareholders.

We face possible federal, state and local tax audits.

Because we are organized and qualify as a REIT, we are generally not subject to federal income taxes, but are subject to certain state and local taxes. Certain entities through which we own real estate have undergone tax audits. There can be no assurance that future audits will not have a material adverse effect on our results of operations.

Competition for skilled personnel could increase labor costs.

We compete with various other companies in attracting and retaining qualified and skilled personnel. We depend on our ability to attract and retain skilled management personnel who are responsible for the day-to-day operations of our company. Competitive pressures may require that we enhance our pay and benefits package to compete effectively for such personnel. We may not be able to offset such added costs by increasing the rates we charge our tenants. If there is an increase in these costs or if we fail to attract and retain qualified and skilled personnel, our business and operating results could be harmed.

We are dependent upon our key personnel.

We are dependent upon our key personnel whose continued service is not guaranteed. We are dependent on our executive officers for strategic business direction and real estate experience. Loss of their services could adversely affect our operations.

Although we have an employment agreement with Gerard H. Sweeney, our President and Chief Executive Officer, this agreement does not restrict his ability to become employed by a competitor following the termination of his employment. We do not have key man life insurance coverage on our executive officers.

Certain limitations will exist with respect to a third party’s ability to acquire us or effectuate a change in control.

Limitations imposed to protect our REIT status. In order to protect us against the loss of our REIT status, our Declaration of Trust limits any shareholder from owning more than 9.8% in value of our outstanding shares, subject to certain exceptions. The ownership limit may have the effect of precluding acquisition of control of us. If anyone acquires shares in excess of the ownership limit, we may:

- consider the transfer to be null and void;

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- not reflect the transaction on our books;
- institute legal action to stop the transaction;
- not pay dividends or other distributions with respect to those shares;
- not recognize any voting rights for those shares; and
- consider the shares held in trust for the benefit of a person to whom such shares may be transferred.

Limitation due to our ability to issue preferred shares. Our Declaration of Trust authorizes our Board of Trustees to cause us to issue preferred shares, without limitation as to amount and without shareholder consent. Our Board of Trustees is able to establish the preferences and rights of any preferred shares issued and these shares could have the effect of delaying or preventing someone from taking control of us, even if a change in control were in our shareholders' best interests.

Limitation imposed by the Maryland Business Combination Law. The Maryland General Corporation Law, as applicable to Maryland REITs, establishes special restrictions against "business combinations" between a Maryland REIT and "interested shareholders" or their affiliates unless an exemption is applicable. An interested shareholder includes a person, who beneficially owns, and an affiliate or associate of the trust who, at any time within the two-year period prior to the date in question, was the beneficial owner of, ten percent or more of the voting power of our then-outstanding voting shares. Among other things, Maryland law prohibits (for a period of five years) a merger and certain other transactions between a Maryland REIT and an interested shareholder unless the board of trustees had approved the transaction before the party became an interested shareholder. The five-year period runs from the most recent date on which the interested shareholder became an interested shareholder. Thereafter, any such business combination must be recommended by the board of trustees and approved by two super-majority shareholder votes unless, among other conditions, the common shareholders receive a minimum price for their shares and the consideration is received in cash or in the same form as previously paid by the interested shareholder for our shares or unless the board of trustees approved the transaction before the party in question became an interested shareholder. The business combination statute could have the effect of discouraging offers to acquire us and of increasing the difficulty of consummating any such offers, even if the acquisition would be in our shareholders' best interests.

Maryland Control Share Acquisition Act. Maryland law provides that "control shares" of a REIT acquired in a "control share acquisition" shall have no voting rights except to the extent approved by a vote of two-thirds of the vote eligible to be cast on the matter under the Maryland Control Share Acquisition Act. Shares construed as "control shares" means that, if aggregated with all other shares previously acquired by the acquirer or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer to exercise voting power in electing trustees within one of the following ranges of voting power: one-tenth or more but less than one-third, one-third or more but less than a majority or a majority or more of all voting power. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained shareholder approval. A "control share acquisition" means the acquisition of control shares, subject to certain exceptions. If voting rights or control shares acquired in a control share acquisition are not approved at a shareholder's meeting, then subject to certain conditions and limitations the issuer may redeem any or all of the control shares for fair value. If voting rights of such control shares are approved at a shareholder's meeting and the acquirer becomes entitled to vote a majority of the shares entitled to vote, all other shareholders may exercise appraisal rights. Any control shares acquired in a control share acquisition which are not exempt under our Bylaws are subject to the Maryland Control Share Acquisition Act. Our Bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by any person of our shares. We cannot assure you that this provision will not be amended or eliminated at any time in the future.

Advance Notice Provisions for Shareholder Nominations and Proposals. Our bylaws require advance notice for shareholders to nominate persons for election as trustees at, or to bring other business before, any meeting of our shareholders. This bylaw provision limits the ability of shareholders to make nominations of persons for election as trustees or to introduce other proposals unless we are notified in a timely manner prior to the meeting.

Many factors can have an adverse effect on the market value of our securities.

A number of factors might adversely affect the price of our securities, many of which are beyond our control. These factors include:

- increases in market interest rates, relative to the dividend yield on our shares. If market interest rates go up, prospective purchasers of our securities may require a higher yield. Higher market interest rates would not, however, result in more funds for us to distribute and, to the contrary, would likely increase our borrowing costs and potentially decrease funds available for distribution. Thus, higher market interest rates could cause the market price of our common shares to go down;
- anticipated benefit of an investment in our securities as compared to investment in securities of companies in other industries (including benefits associated with tax treatment of dividends and distributions);
- perception by market professionals of REITs generally and REITs comparable to us in particular;
- level of institutional investor interest in our securities;

- relatively low trading volumes in securities of REITs;
- our results of operations and financial condition; and
- investor confidence in the stock market generally.

The market value of our common shares is based primarily upon the market's perception of our growth potential and our current and potential future earnings and cash distributions. Consequently, our common shares may trade at prices that are higher or lower than our net asset value per common share. If our future earnings or cash distributions are less than expected, it is likely that the market price of our common shares will diminish.

Additional issuances of equity securities may be dilutive to shareholders.

The interests of our shareholders could be diluted if we issue additional equity securities to finance future developments or acquisitions or to repay indebtedness. Our Board of Trustees may authorize the issuance of additional equity securities without shareholder approval. Our ability to execute our business strategy depends upon our access to an appropriate blend of debt financing, including unsecured lines of credit and other forms of secured and unsecured debt, and equity financing, including the issuance of common and preferred equity.

The issuance of preferred securities may adversely affect the rights of holders of our common shares.

Because our Board of Trustees has the power to establish the preferences and rights of each class or series of preferred shares, we may afford the holders in any series or class of preferred shares preferences, distributions, powers and rights, voting or otherwise, senior to the rights of holders of common shares. Our Board of Trustees also has the power to establish the preferences and rights of each class or series of units in the Operating Partnership, and may afford the holders in any series or class of preferred units preferences, distributions, powers and rights, voting or otherwise, senior to the rights of holders of common units.

Our performance is dependent upon the economic conditions of the markets in which our properties are located.

Our properties are located in Pennsylvania, New Jersey, Delaware, Maryland, Virginia, Texas, and California. Like other real estate markets, these commercial real estate markets have been impacted by the ongoing economic recovery from the recent recession, and any adverse changes in economic conditions in the future in any of these economies or real estate markets could negatively affect cash available for distribution. Our financial performance and ability to make distributions to our shareholders will be particularly sensitive to the economic conditions in these markets. The local economic climate, which may be adversely impacted by business layoffs or downsizing, industry slowdowns, changing demographics and other factors, and local real estate conditions, such as oversupply of or reduced demand for office, industrial and other competing commercial properties, may affect revenues and the value of properties, including properties to be acquired or developed. We cannot assure you that these local economies will grow in the future.

Data security breaches may cause damage to our business and reputation.

In the ordinary course of our business we maintain sensitive data, including our proprietary business information and the information of our tenants and business partners, in our data centers and on our networks. Notwithstanding the security measures undertaken, our information technology may be vulnerable to attacks or breached and result in proprietary information being publicly disclosed, lost or stolen. Any such data breach could disrupt our operations and damage our reputation, which may in turn have an adverse impact on our results of operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Property Acquisitions

One and Two Commerce Square

On December 19, 2013, we increased our equity ownership interest in One and Two Commerce Square, two Class A trophy office properties in Philadelphia, Pennsylvania, from 25% to 99%. These two properties contain 1,896,142 of net rentable square feet of office space and were 83.7% and 89.6% occupied, respectively, as of December 31, 2013. We acquired the additional ownership interests from an unaffiliated third party for cash proceeds of $73.1 million. We used available corporate funds for the cash portion of the acquisition price.

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In connection with the acquisition of One Commerce Square, we assumed a $125.1 million existing non-recourse first mortgage with a fixed interest rate of 5.67% and a maturity date of January 6, 2016. In connection with the acquisition of Two Commerce Square, we assumed a $112.0 million existing non-recourse first mortgage with a fixed interest rate of 3.96% and a maturity date of April 5, 2023.

Four Points Centre

On December 19, 2013, we acquired, from an unaffiliated third party, a two-building office property totaling 192,396 of net rentable square feet known as Four Points Centre, together with 22.3 acres of nearby land parcels in Austin, Texas for an aggregate of $47.3 million. The office property was 99.2% occupied as of December 31, 2013. We funded the acquisition price with available corporate funds.

Cira Centre

On November 19, 2013, we acquired, from an unaffiliated third party, the 0.8 acre land parcel underlying our Cira Centre office tower in Philadelphia, Pennsylvania for $24.6 million. We had developed and owned Cira Centre on land subject to a long-term ground lease, and our acquisition of the land resulted in termination of the ground lease. We funded the acquisition with available corporate funds and capitalized $1.4 million of acquisition related costs as part of basis in the operating land.

Three Logan Square

On April 25, 2013, we acquired, the 1.8 acre land parcel underlying our Three Logan Square office tower in Philadelphia, Pennsylvania for $20.8 million. We acquired Three Logan Square in 2010 on land subject to a long-term ground lease, and, as part of our 2010 acquisition, held an option to acquire the land. Our 2013 acquisition of the land resulted in termination of the ground lease. We funded the acquisition with available corporate funds and capitalized $0.1 million of acquisition related costs as part of basis in the operating land.

Development and Redevelopment Properties Placed in Service

During 2013, we did not place any development or redevelopment properties into service. At December 31, 2013, we were proceeding on the following activity:

Construction Commencement Date	Expected Completion	Activity Type	Property/Portfolio Name	Location	Number of Buildings	Square Footage	Budgeted Costs (000's)	Costs Incurred(000's)
April-13	Q1 2014	Development	200 Radnor Chester Road	Radnor, PA	1	17,884	$7,434	$ 6,044
Jan-12	Q1 2014	Redevelopment	660 West Germantown Pike	Plymouth Meeting, PA	1	154,392	27,910	26,668
			Total		2	172,276	$35,344	$ 32,712

As discussed above in Item 1 under the heading “2013 Transactions,” as of December 31, 2013, we were proceeding through two of our unconsolidated real estate ventures (evo at Cira Centre and The Parc at Plymouth Meeting) on two development projects.   In addition, as also discussed in Item 1 above, as of December 31, 2013, we had entered into two leases with third parties under which we have agreed to develop the Cira Walnut Tower for initial occupancy during the second quarter of 2016.

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Property Sales

We sold the following office properties during the year ended December 31, 2013:

Month of Sale	Property/Portfolio Name	Location	# of Properties	Rentable Square Feet	Property/Portfolio Occupancy % at Date of Sale		Net Proceeds on Sale (000's)	Gain (Loss) on Sale (000's) (a)
Dec-13	875 First Avenue	King of Prussia, PA	1	50,000	—	%	$3,658	$131
Oct-13	1336 Enterprise Drive	West Chester, PA	1	39,330	—	%	2,521	156
Oct-13	Austin Properties/DRA JV (b)	Austin, TX	7	1,398,826	96.8	%	270,749	25,921
Jun-13	The Bluffs	San Diego, CA	1	68,708	98.8	%	17,403	(856)
Jun-13	100 Arrandale Boulevard	Exton, PA	1	34,931	—	%	3,268	(400)
Jun-13	1700 Paoli Pike	Malvern, PA	1	28,000	—	%	2,544	(444)
Jun-13	Pacific View Plaza	Carlsbad, CA	1	51,695	90.5	%	9,950	(521)
Feb-13	Princeton Pike Corp Center	Lawrenceville, NJ	8	800,546	86.9	%	112,876	5,316
	Total Office Properties Sold		21	2,472,036			$422,969	$29,303

(a) Includes closing and other transaction related costs.
(b) The Austin Properties were contributed to an unconsolidated real estate venture.

We sold the following land parcel during the year ended December 31, 2013:

Month of Sale	Property/Portfolio Name	Location	# of Parcels	Acres	Property/Portfolio Occupancy % at Date of Sale		Net Proceeds on Sale (in thousands)	Gain (Loss) on Sale (a)
Aug-13	Dabney Land East	Richmond, VA	1	8.0	—	%	$511	$(137)
	Total Land Sold		1	8.0			$511	$(137)

(a) Includes closing and other transaction related costs.

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Properties

As of December 31, 2013, we owned 204 properties that contain an aggregate of approximately 24.8 million net rentable square feet and consist of 176 office properties, 19 industrial facilities, five mixed-use properties (200 core properties), one development property, two redevelopment properties and one re-entitlement property. The properties are located in or near Philadelphia, Pennsylvania; Metropolitan Washington, D.C.; Southern New Jersey; Richmond, Virginia; Wilmington, Delaware; Austin, Texas; and Oakland, Concord, and Carlsbad, California. As of December 31, 2013, the properties were approximately 89.5% occupied by 1,376 tenants and had an average age of approximately 21.6 years. The office properties are a combination of urban, transit oriented and suburban office buildings containing an average of approximately 131,085 net rentable square feet. The industrial and mixed-use properties accommodate a variety of tenant uses, including light manufacturing, assembly, distribution and warehousing. We carry comprehensive liability, fire, extended coverage and rental loss insurance covering all of the properties, with policy specifications and insured limits which we believe are adequate.

The following table sets forth information with respect to our core properties at December 31, 2013:

		Location	State	Year Built/ Renovated	Net Rentable Square Feet	Percentage Leased as of December 31, 2013 (a)		Total Base Rent for the Twelve Months Ended December 31, 2013 (b) (000's)	Average Annualized Rental Rate as of December 31, 2013 (c)
PENNSYLVANIA SUBURBS SEGMENT									
150 Radnor Chester Road		Radnor	PA	1983	340,380	100.0	%	$9,948	$33.39
201 King of Prussia Road		Radnor	PA	2001	251,434	100.0	%	6,827	31.54
555 Lancaster Avenue		Radnor	PA	1973	241,687	98.7	%	6,579	32.38
401 Plymouth Road		Plymouth Meeting	PA	2001	204,186	93.7	%	5,256	29.26
One Radnor Corporate Center		Radnor	PA	1998	201,874	100.0	%	5,407	27.39
101 West Elm Street		W. Conshohocken	PA	1999	173,827	94.4	%	4,068	26.32
Five Radnor Corporate Center		Radnor	PA	1998	164,505	95.1	%	4,552	31.37
Four Radnor Corporate Center		Radnor	PA	1995	164,464	100.0	%	4,041	27.78
751-761 Fifth Avenue		King Of Prussia	PA	1967	158,000	100.0	%	704	4.13
630 Allendale Road		King of Prussia	PA	2000	150,000	61.9	%	1,974	25.35
640 Freedom Business Center	(d)	King Of Prussia	PA	1991	132,000	81.0	%	2,154	23.10
52 Swedesford Square		East Whiteland Twp.	PA	1988	131,017	69.3	%	1,434	12.67
400 Berwyn Park		Berwyn	PA	1999	124,182	95.4	%	2,801	26.38
4000 Chemical Road		Plymouth Meeting	PA	2007	120,877	100.0	%	3,020	29.33
Three Radnor Corporate Center		Radnor	PA	1998	119,087	100.0	%	3,249	31.24
101 Lindenwood Drive		Malvern	PA	1988	118,121	100.0	%	2,385	21.76

181 Washington Street		Conshohocken	PA	1999	116,174	87.9	%	1,443	25.22
300 Berwyn Park		Berwyn	PA	1989	107,702	96.8	%	2,249	24.82
Two Radnor Corporate Center		Radnor	PA	1998	97,576	100.0	%	2,652	22.97
301 Lindenwood Drive		Malvern	PA	1984	97,813	100.0	%	1,771	18.30
1 West Elm Street		W. Conshohocken	PA	1999	97,737	100.0	%	2,654	9.40
555 Croton Road		King of Prussia	PA	1999	96,909	74.5	%	1,446	22.73
500 North Gulph Road		King Of Prussia	PA	1979	93,082	51.4	%	827	19.83
620 West Germantown Pike		Plymouth Meeting	PA	1990	90,183	100.0	%	1,635	26.30
610 West Germantown Pike		Plymouth Meeting	PA	1987	90,088	94.2	%	1,692	25.04
630 West Germantown Pike		Plymouth Meeting	PA	1988	89,870	95.3	%	2,281	29.99
600 West Germantown Pike		Plymouth Meeting	PA	1986	89,626	91.3	%	1,787	26.58
630 Freedom Business Center	(d)	King Of Prussia	PA	1989	86,683	95.8	%	1,624	22.15
1200 Swedesford Road		Berwyn	PA	1994	86,622	100.0	%	1,824	29.57
620 Freedom Business Center	(d)	King Of Prussia	PA	1986	86,570	100.0	%	1,690	23.94
595 East Swedesford Road		Wayne	PA	1998	81,890	100.0	%	1,672	22.69
1050 Westlakes Drive		Berwyn	PA	1984	80,000	100.0	%	2,143	28.25
One Progress Drive		Horsham	PA	1986	79,204	80.0	%	798	19.59
1060 First Avenue	(d)	King Of Prussia	PA	1987	77,718	100.0	%	1,228	22.48
741 First Avenue		King Of Prussia	PA	1966	77,184	100.0	%	376	6.25
1040 First Avenue	(d)	King Of Prussia	PA	1985	75,488	100.0	%	191	—
200 Berwyn Park		Berwyn	PA	1987	75,025	83.1	%	1,319	24.61
1020 First Avenue	(d)	King Of Prussia	PA	1984	74,556	100.0	%	1,830	22.53
1000 First Avenue	(d)	King Of Prussia	PA	1980	74,139	84.7	%	1,431	23.09

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		Location	State	Year Built/ Renovated	Net Rentable Square Feet	Percentage Leased as of December 31, 2013 (a)		Total Base Rent for the Twelve Months Ended December 31, 2013 (b) (000's)	Average Annualized Rental Rate as of December 31, 2013 (c)
130 Radnor Chester Road		Radnor	PA	1983	71,349	100.0	%	2,150	33.83
14 Campus Boulevard		Newtown Square	PA	1998	69,542	100.0	%	1,815	27.72
170 Radnor Chester Road		Radnor	PA	1983	68,143	100.0	%	1,534	21.30
500 Enterprise Road		Horsham	PA	1990	66,751	100.0	%	823	20.13
575 East Swedesford Road		Wayne	PA	1985	66,265	100.0	%	1,229	28.94
610 Freedom Business Center	(d)	King Of Prussia	PA	1985	62,991	97.7	%	1,042	22.05
925 Harvest Drive		Blue Bell	PA	1990	62,957	86.6	%	924	20.89
980 Harvest Drive		Blue Bell	PA	1988	62,379	94.0	%	1,132	18.86
426 Lancaster Avenue		Devon	PA	1990	61,102	100.0	%	1,213	22.93
1180 Swedesford Road		Berwyn	PA	1987	60,371	66.6	%	612	4.26
1160 Swedesford Road		Berwyn	PA	1986	60,099	89.6	%	156	—
100 Berwyn Park		Berwyn	PA	1986	57,730	96.1	%	986	23.35
640 Allendale Road	(f)	King of Prussia	PA	2000	56,034	100.0	%	314	7.94
565 East Swedesford Road		Wayne	PA	1984	55,456	98.6	%	936	20.97
650 Park Avenue		King Of Prussia	PA	1968	54,338	100.0	%	855	17.29
910 Harvest Drive		Blue Bell	PA	1990	52,611	100.0	%	1,040	22.02
2240/50 Butler Pike		Plymouth Meeting	PA	1984	52,229	100.0	%	960	22.14
920 Harvest Drive		Blue Bell	PA	1990	51,875	100.0	%	1,055	21.88
660 Allendale Road		King of Prussia	PA	2011	50,635	100.0	%	677	16.89
620 Allendale Road		King Of Prussia	PA	1961	50,000	100.0	%	629	13.81
15 Campus Boulevard		Newtown Square	PA	2002	49,621	100.0	%	1,223	27.13
17 Campus Boulevard		Newtown Square	PA	2001	48,565	100.0	%	1,137	27.30
11 Campus Boulevard		Newtown Square	PA	1998	47,700	100.0	%	998	22.45
585 East Swedesford Road		Wayne	PA	1998	43,683	100.0	%	775	29.61
1100 Cassett Road		Berwyn	PA	1997	43,480	100.0	%	1,204	27.75
600 Park Avenue		King Of Prussia	PA	1964	39,000	100.0	%	234	6.00
18 Campus Boulevard		Newtown Square	PA	1990	37,374	52.6	%	530	23.73
300 Lindenwood Drive		Malvern	PA	1991	33,000	100.0	%	794	25.77
2260 Butler Pike			PA	1984	31,892	100.0	%	397	22.94

	Plymouth Meeting							
120 West Germantown Pike	Plymouth Meeting	PA	1984	30,574	100.0	%	483	17.24
140 West Germantown Pike	Plymouth Meeting	PA	1984	25,357	100.0	%	519	23.86
100 Lindenwood Drive	Malvern	PA	1985	18,400	100.0	%	373	22.83
200 Lindenwood Drive	Malvern	PA	1984	12,600	100.0	%	212	19.20
SUBTOTAL - PENNSYLVANIA SUBURBS SEGMENT				6,471,583	94.3	%	$129,923	$24.38
PHILADELPHIA CENTRAL BUSINESS DISTRICT SEGMENT								
1717 Arch Street	Philadelphia	PA	1990	1,029,413	96.1	%	$21,968	$28.76
Two Commerce Square								