DUKE REALTY CORP
Form 10-Q
August 01, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended June 30, 2014
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: 1-9044 (Duke Realty Corporation) 0-20625 (Duke Realty Limited Partnership)
DUKE REALTY CORPORATION
DUKE REALTY LIMITED PARTNERSHIP
(Exact Name of Registrant as Specified in Its Charter)

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

Registrant's Telephone Number, Including Area Code: (317) 808-6000
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Duke Realty Corporation	Yes x	No o	Duke Realty Limited Partnership	Yes x	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).

Duke Realty Corporation	Yes x	No o	Duke Realty Limited Partnership	Yes x	No o

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.
Duke Realty Corporation:

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

Duke Realty Limited Partnership:

Large accelerated filer o	Accelerated filer o	Non-accelerated filer x	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):

Duke Realty Corporation	Yes o	No x	Duke Realty Limited Partnership	Yes o	No x

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

	Outstanding Common Shares of Duke Realty Corporation at July 31, 2014
Common Stock, $.01 par value per share	341,162,059

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended June 30, 2014 of both Duke Realty Corporation and Duke Realty Limited Partnership. Unless stated otherwise or the context otherwise requires, references to "Duke Realty Corporation" or the "General Partner" mean Duke Realty Corporation and its consolidated subsidiaries; and references to the "Partnership" mean Duke Realty Limited Partnership and its consolidated subsidiaries. The terms the "Company," "we," "us" and "our" refer to the General Partner and the Partnership, collectively, and those entities owned or controlled by the General Partner and/or the Partnership.

Duke Realty Corporation is a self-administered and self-managed real estate investment trust ("REIT") and is the sole general partner of the Partnership, owning 98.7% of the common partnership interests of the Partnership ("General Partner Units") as of June 30, 2014. The remaining 1.3% of the common partnership interests ("Limited Partner Units" and, together with the General Partner Units, the "Common Units") are owned by limited partners. As the sole general partner of the Partnership, the General Partner has full, exclusive and complete responsibility and discretion in the day-to-day management and control of the Partnership. The General Partner also owns all of the issued and outstanding preferred partnership interests in the Partnership ("Preferred Units").

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

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

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

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

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

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

DUKE REALTY CORPORATION/DUKE REALTY LIMITED PARTNERSHIP
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

DUKE REALTY CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except per share amounts)

	June 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Real estate investments:		
Land and improvements	$1,460,568	$1,438,007
Buildings and tenant improvements	5,610,890	5,531,726
Construction in progress	367,813	256,895
Investments in and advances to unconsolidated companies	334,473	342,947
Undeveloped land	541,227	590,052
	8,314,971	8,159,627
Accumulated depreciation	(1,430,006)	(1,368,406)
Net real estate investments	6,884,965	6,791,221
Real estate investments and other assets held-for-sale	29,780	57,466
Cash and cash equivalents	21,225	19,275
Accounts receivable, net of allowance of $2,629 and $1,576	33,642	26,173
Straight-line rent receivable, net of allowance of $6,088 and $9,350	128,949	118,251
Receivables on construction contracts, including retentions	37,708	19,209
Deferred financing costs, net of accumulated amortization of $41,764 and $37,016	30,949	36,250
Deferred leasing and other costs, net of accumulated amortization of $305,870 and $394,049	451,515	466,979
Escrow deposits and other assets	243,771	217,790
	$7,862,504	$7,752,614
LIABILITIES AND EQUITY		
Indebtedness:		
Secured debt	$1,008,662	$1,100,124
Unsecured debt	3,065,223	3,066,252
Unsecured line of credit	60,000	88,000
	4,133,885	4,254,376
Liabilities related to real estate investments held-for-sale	538	2,075
Construction payables and amounts due subcontractors, including retentions	101,792	69,380
Accrued real estate taxes	84,634	74,696
Accrued interest	56,736	52,824
Other accrued expenses	61,836	67,495
Other liabilities	122,143	142,589
Tenant security deposits and prepaid rents	49,080	44,550
Total liabilities	4,610,644	4,707,985
Shareholders' equity:		
Preferred shares ($.01 par value); 5,000 shares authorized; 1,716 and 1,791 shares issued and outstanding	428,926	447,683

Common shares ($.01 par value); 600,000 and 400,000 shares authorized; 338,093 and 326,399 shares issued and outstanding	3,381	3,264
Additional paid-in capital	4,820,944	4,620,964
Accumulated other comprehensive income	3,600	4,119
Distributions in excess of net income	(2,031,957)	(2,062,787)
Total shareholders' equity	3,224,894	3,013,243
Noncontrolling interests	26,966	31,386
Total equity	3,251,860	3,044,629
	$7,862,504	$7,752,614

See accompanying Notes to Consolidated Financial Statements

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

	Three Months Ended		Six Months Ended	
	2014	2013	2014	2013
Revenues:				
Rental and related revenue	$233,518	$215,308	$470,868	$425,187
General contractor and service fee revenue	69,512	50,793	125,332	98,197
	303,030	266,101	596,200	523,384
Expenses:				
Rental expenses	39,938	37,431	90,205	76,291
Real estate taxes	31,964	29,569	64,431	58,609
General contractor and other services expenses	63,857	45,192	111,128	83,533
Depreciation and amortization	97,641	95,322	195,700	188,316
	233,400	207,514	461,464	406,749
Other operating activities:				
Equity in earnings of unconsolidated companies	60,826	1,091	63,147	50,469
Gain on sale of properties	70,318	940	86,171	1,108
Gain on land sales	3,889	—	4,041	—
Undeveloped land carrying costs	(1,858)	(2,531)	(3,982)	(4,729)
Impairment charges	(2,523)	(3,777)	(2,523)	(3,777)
Other operating expenses	(129)	(35)	(221)	(103)
General and administrative expenses	(10,365)	(9,707)	(25,059)	(22,852)
	120,158	(14,019)	121,574	20,116
Operating income	189,788	44,568	256,310	136,751
Other income (expenses):				
Interest and other income, net	229	921	580	1,074
Interest expense	(54,872)	(57,019)	(110,129)	(114,343)
Loss on debt extinguishment	(139)	—	(139)	—
Acquisition-related activity	(747)	(2,423)	(761)	(1,780)
Income (loss) from continuing operations before income taxes	134,259	(13,953)	145,861	21,702
Income tax expense	(364)	—	(3,038)	—
Income (loss) from continuing operations	133,895	(13,953)	142,823	21,702
Discontinued operations:				
Income (loss) before gain on sales	327	128	195	(358)
Gain on sale of depreciable properties, net of tax	2,305	83,657	19,080	92,611
Income from discontinued operations	2,632	83,785	19,275	92,253
Net income	136,527	69,832	162,098	113,955
Dividends on preferred shares	(7,046)	(7,355)	(14,083)	(16,905)
Adjustments for redemption/repurchase of preferred shares	—	—	483	(5,932)
Net income attributable to noncontrolling interests	(1,793)	(983)	(2,127)	(1,581)
Net income attributable to common shareholders	$127,688	$61,494	$146,371	$89,537
Basic net income (loss) per common share:				
Continuing operations attributable to common shareholders	$0.37	$(0.07)	$0.38	$(0.01)
Discontinued operations attributable to common shareholders	0.01	0.26	0.06	0.29
Total	$0.38	$0.19	$0.44	$0.28
Diluted net income (loss) per common share:				
Continuing operations attributable to common shareholders	$0.37	$(0.07)	$0.38	$(0.01)

Discontinued operations attributable to common shareholders	0.01	0.26	0.06	0.29
Total	$0.38	$0.19	$0.44	$0.28
Weighted average number of common shares outstanding	331,753	322,489	329,442	318,733
Weighted average number of common shares and potential dilutive securities	336,414	327,098	334,102	323,350
Comprehensive income:				
Net income	$136,527	$69,832	$162,098	$113,955
Other comprehensive income (loss):				
Amortization of interest contracts	(287)	226	(574)	683
Other	55	496	55	576
Total other comprehensive income (loss)	(232)	722	(519)	1,259
Comprehensive income	$136,295	$70,554	$161,579	$115,214

See accompanying Notes to Consolidated Financial Statements

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

	2014	2013
Cash flows from operating activities:		
Net income	$162,098	$113,955
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of buildings and tenant improvements	144,618	141,353
Amortization of deferred leasing and other costs	51,287	57,686
Amortization of deferred financing costs	5,042	6,867
Straight-line rental income and expense, net	(10,892)	(8,789)
Impairment charges	2,523	3,777
Gain on acquisitions	—	(962)
Gains on land and depreciated property sales, net of tax	(107,164)	(93,719)
Third-party construction contracts, net	(10,209)	8,922
Other accrued revenues and expenses, net	11,181	9,564
Operating distributions received less than equity in earnings from unconsolidated companies	(44,454)	(40,449)
Net cash provided by operating activities	204,030	198,205
Cash flows from investing activities:		
Development of real estate investments	(226,575)	(224,202)
Acquisition of real estate investments and related intangible assets	(85,182)	(334,287)
Acquisition of undeveloped land	(11,800)	(23,234)
Second generation tenant improvements, leasing costs and building improvements	(44,367)	(37,133)
Other deferred leasing costs	(14,980)	(17,633)
Other assets	3,954	(7,774)
Proceeds from land and depreciated property sales, net	213,040	259,169
Capital distributions from unconsolidated companies	40,293	89,237
Capital contributions and advances to unconsolidated companies	(4,165)	(13,260)
Net cash used for investing activities	(129,782)	(309,117)
Cash flows from financing activities:		
Proceeds from issuance of common shares, net	191,107	601,927
Payments for redemption/repurchase of preferred shares	(17,656)	(177,955)
Proceeds from unsecured debt	—	500,000
Payments on unsecured debt	(1,029)	(425,967)
Proceeds from secured debt financings	—	1,933
Payments on secured indebtedness including principal amortization	(88,898)	(30,349)
Payments on line of credit, net	(28,000)	(197,000)
Distributions to common shareholders	(111,919)	(109,554)
Distributions to preferred shareholders	(14,186)	(16,905)
Distributions to noncontrolling interests, net	(1,304)	(1,846)
Buyout of noncontrolling interests	(7,717)	—
Change in book overdrafts	7,659	(38,921)
Deferred financing costs	(355)	(6,938)
Net cash provided by (used for) financing activities	(72,298)	98,425
Net increase (decrease) in cash and cash equivalents	1,950	(12,487)
Cash and cash equivalents at beginning of period	19,275	33,889
Cash and cash equivalents at end of period	$21,225	$21,402

Non-cash investing and financing activities:		
Assumption of indebtedness and other liabilities in real estate acquisitions	$54	$106,320
Carrying amount of pre-existing ownership interest in acquired property	$—	$630
Conversion of Limited Partner Units to common shares	$56	$338

See accompanying Notes to Consolidated Financial Statements

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DUKE REALTY CORPORATION AND SUBSIDIARIES
Consolidated Statement of Changes in Equity
For the six months ended June 30, 2014
(in thousands, except per share data)
(Unaudited)

	Common Shareholders						
	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Distributions in Excess of Net Income	Non-Controlling Interests	Total
Balance at December 31, 2013	$447,683	$3,264	$4,620,964	$4,119	$(2,062,787)	$31,386	$3,044,629
Net income	—	—	—	—	159,971	2,127	162,098
Other comprehensive income (loss)	—	—	—	(519)	—	—	(519)
Issuance of common shares	—	110	190,997	—	—	—	191,107
Stock-based compensation plan activity	—	7	8,309	—	(1,092)	—	7,224
Conversion of Limited Partner Units	—	—	56	—	—	(56)	—
Distributions to preferred shareholders	—	—	—	—	(14,083)	—	(14,083)
Repurchase of preferred shares	(18,757)	—	618	—	483	—	(17,656)
Distributions to common shareholders ($0.34 per share)	—	—	—	—	(111,919)	—	(111,919)
Distributions to noncontrolling interests, net	—	—	—	—	—	(1,304)	(1,304)
Buyout of noncontrolling interests	—	—	—	—	(2,530)	(5,187)	(7,717)
Balance at June 30, 2014	$428,926	$3,381	$4,820,944	$3,600	$(2,031,957)	$26,966	$3,251,860

See accompanying Notes to Consolidated Financial Statements

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

	June 30, 2014	December 31, 2013
	(Unaudited)	
ASSETS		
Real estate investments:		
Land and improvements	$1,460,568	$1,438,007
Buildings and tenant improvements	5,610,890	5,531,726
Construction in progress	367,813	256,895
Investments in and advances to unconsolidated companies	334,473	342,947
Undeveloped land	541,227	590,052
	8,314,971	8,159,627
Accumulated depreciation	(1,430,006)	(1,368,406)
Net real estate investments	6,884,965	6,791,221
Real estate investments and other assets held-for-sale	29,780	57,466
Cash and cash equivalents	21,225	19,275
Accounts receivable, net of allowance of $2,629 and $1,576	33,642	26,173
Straight-line rent receivable, net of allowance of $6,088 and $9,350	128,949	118,251
Receivables on construction contracts, including retentions	37,708	19,209
Deferred financing costs, net of accumulated amortization of $41,764 and $37,016	30,949	36,250
Deferred leasing and other costs, net of accumulated amortization of $305,870 and $394,049	451,515	466,979
Escrow deposits and other assets	243,771	217,790
	$7,862,504	$7,752,614
LIABILITIES AND EQUITY		
Indebtedness:		
Secured debt	$1,008,662	$1,100,124
Unsecured debt	3,065,223	3,066,252
Unsecured line of credit	60,000	88,000
	4,133,885	4,254,376
Liabilities related to real estate investments held-for-sale	538	2,075
Construction payables and amounts due subcontractors, including retentions	101,792	69,380
Accrued real estate taxes	84,634	74,696
Accrued interest	56,736	52,824
Other accrued expenses	62,080	67,739
Other liabilities	122,143	142,589
Tenant security deposits and prepaid rents	49,080	44,550
Total liabilities	4,610,888	4,708,229
Partners' equity:		
General Partner:		
Common equity (338,093 and 326,399 General Partner Units issued and outstanding)	2,796,297	2,565,370

Preferred equity (1,716 and 1,791 Preferred Units issued and outstanding)	428,926	447,683
	3,225,223	3,013,053
Limited Partners' common equity (4,381 and 4,387 Limited Partner Units issued and outstanding)	20,554	20,158
Accumulated other comprehensive income	3,600	4,119
Total partners' equity	3,249,377	3,037,330
Noncontrolling interests	2,239	7,055
Total equity	3,251,616	3,044,385
	$7,862,504	$7,752,614

See accompanying Notes to Consolidated Financial Statements

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

	Three Months Ended		Six Months Ended	
	2014	2013	2014	2013
Revenues:				
Rental and related revenue	$233,518	$215,308	$470,868	$425,187
General contractor and service fee revenue	69,512	50,793	125,332	98,197
	303,030	266,101	596,200	523,384
Expenses:				
Rental expenses	39,938	37,431	90,205	76,291
Real estate taxes	31,964	29,569	64,431	58,609
General contractor and other services expenses	63,857	45,192	111,128	83,533
Depreciation and amortization	97,641	95,322	195,700	188,316
	233,400	207,514	461,464	406,749
Other operating activities:				
Equity in earnings of unconsolidated companies	60,826	1,091	63,147	50,469
Gain on sale of properties	70,318	940	86,171	1,108
Gain on land sales	3,889	—	4,041	—
Undeveloped land carrying costs	(1,858)	(2,531)	(3,982)	(4,729)
Impairment charges	(2,523)	(3,777)	(2,523)	(3,777)
Other operating expenses	(129)	(35)	(221)	(103)
General and administrative expenses	(10,365)	(9,707)	(25,059)	(22,852)
	120,158	(14,019)	121,574	20,116
Operating income	189,788	44,568	256,310	136,751
Other income (expenses):				
Interest and other income, net	229	921	580	1,074
Interest expense	(54,872)	(57,019)	(110,129)	(114,343)
Loss on debt extinguishment	(139)	—	(139)	—
Acquisition-related activity	(747)	(2,423)	(761)	(1,780)
Income (loss) from continuing operations before income taxes	134,259	(13,953)	145,861	21,702
Income tax expense	(364)	—	(3,038)	—
Income (loss) from continuing operations	133,895	(13,953)	142,823	21,702
Discontinued operations:				
Income (loss) before gain on sales	327	128	195	(358)
Gain on sale of depreciable properties, net of tax	2,305	83,657	19,080	92,611
Income from discontinued operations	2,632	83,785	19,275	92,253
Net income	136,527	69,832	162,098	113,955
Distributions on Preferred Units	(7,046)	(7,355)	(14,083)	(16,905)
Adjustments for redemption/repurchase of Preferred Units	—	—	483	(5,932)
Net income attributable to noncontrolling interests	(100)	(141)	(184)	(347)
Net income attributable to common unitholders	$129,381	$62,336	$148,314	$90,771
Basic net income (loss) per Common Unit:				
Continuing operations attributable to common unitholders	$0.37	$(0.07)	$0.38	$(0.01)
Discontinued operations attributable to common unitholders	0.01	0.26	0.06	0.29
Total	$0.38	$0.19	$0.44	$0.28
Diluted net income (loss) per Common Unit:				
Continuing operations attributable to common unitholders	$0.37	$(0.07)	$0.38	$(0.01)

Discontinued operations attributable to common unitholders	0.01	0.26	0.06	0.29
Total	$0.38	$0.19	$0.44	$0.28
Weighted average number of Common Units outstanding	336,139	326,877	333,828	323,130
Weighted average number of Common Units and potential dilutive securities	336,414	327,098	334,102	323,350
Comprehensive income:				
Net income	$136,527	$69,832	$162,098	$113,955
Other comprehensive income (loss):				
Amortization of interest contracts	(287)	226	(574)	683
Other	55	496	55	576
Total other comprehensive income (loss)	(232)	722	(519)	1,259
Comprehensive income	$136,295	$70,554	$161,579	$115,214

See accompanying Notes to Consolidated Financial Statements

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

	2014	2013
Cash flows from operating activities:		
Net income	$162,098	$113,955
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of buildings and tenant improvements	144,618	141,353
Amortization of deferred leasing and other costs	51,287	57,686
Amortization of deferred financing costs	5,042	6,867
Straight-line rental income and expense, net	(10,892)	(8,789)
Impairment charges	2,523	3,777
Gain on acquisitions	—	(962)
Gains on land and depreciated property sales, net of tax	(107,164)	(93,719)
Third-party construction contracts, net	(10,209)	8,922
Other accrued revenues and expenses, net	11,181	9,601
Operating distributions received less than equity in earnings from unconsolidated companies	(44,454)	(40,449)
Net cash provided by operating activities	204,030	198,242
Cash flows from investing activities:		
Development of real estate investments	(226,575)	(224,202)
Acquisition of real estate investments and related intangible assets	(85,182)	(334,287)
Acquisition of undeveloped land	(11,800)	(23,234)
Second generation tenant improvements, leasing costs and building improvements	(44,367)	(37,133)
Other deferred leasing costs	(14,980)	(17,633)
Other assets	3,954	(7,774)
Proceeds from land and depreciated property sales, net	213,040	259,169
Capital distributions from unconsolidated companies	40,293	89,237
Capital contributions and advances to unconsolidated companies	(4,165)	(13,260)
Net cash used for investing activities	(129,782)	(309,117)
Cash flows from financing activities:		
Contributions from the General Partner	191,107	601,927
Payments for redemption/repurchase of Preferred Units	(17,656)	(177,955)
Proceeds from unsecured debt	—	500,000
Payments on unsecured debt	(1,029)	(425,967)
Proceeds from secured debt financings	—	1,933
Payments on secured indebtedness including principal amortization	(88,898)	(30,349)
Payments on line of credit, net	(28,000)	(197,000)
Distributions to common unitholders	(113,410)	(111,088)
Distributions to preferred unitholders	(14,186)	(16,905)
Contributions from (distributions to) noncontrolling interests, net	187	(349)
Buyout of noncontrolling interests	(7,717)	—
Change in book overdrafts	7,659	(38,921)
Deferred financing costs	(355)	(6,938)
Net cash provided by (used for) financing activities	(72,298)	98,388
Net increase (decrease) in cash and cash equivalents	1,950	(12,487)
Cash and cash equivalents at beginning of period	19,275	33,889
Cash and cash equivalents at end of period	$21,225	$21,402

Non-cash investing and financing activities:		
Assumption of indebtedness and other liabilities in real estate acquisitions	$54	$106,320
Carrying amount of pre-existing ownership interest in acquired property	$—	$630
Conversion of Limited Partner Units to common shares of the General Partner	$56	$338

See accompanying Notes to Consolidated Financial Statements

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DUKE REALTY LIMITED PARTNERSHIP AND SUBSIDIARIES
Consolidated Statement of Changes in Equity
For the six months ended June 30, 2014
(in thousands, except per unit data)
(Unaudited)

	Common Unitholders						
	General Partner		Limited Partners'	Accumulated Other	Total		
	Common Equity	Preferred Equity	Common Equity	Comprehensive Income	Partners' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2013	$2,565,370	$447,683	$20,158	$4,119	$3,037,330	$7,055	$3,044,385
Net income	145,888	14,083	1,943	—	161,914	184	162,098
Other comprehensive income (loss)	—	—	—	(519)	(519)	—	(519)
Capital contribution from the General Partner	191,107	—	—	—	191,107	—	191,107
Stock-based compensation plan activity	7,224	—	—	—	7,224	—	7,224
Conversion of Limited Partner Units to common shares of the General Partner	56	—	(56)	—	—	—	—
Distributions to Preferred Unitholders	—	(14,083)	—	—	(14,083)	—	(14,083)
Repurchase of Preferred Units	1,101	(18,757)	—	—	(17,656)	—	(17,656)
Distributions to Partners ($0.34 per Common Unit)	(111,919)	—	(1,491)	—	(113,410)	—	(113,410)
Contributions from noncontrolling interests, net	—	—	—	—	—	187	187
Buyout of noncontrolling interests	(2,530)	—	—	—	(2,530)	(5,187)	(7,717)
Balance at June 30, 2014	$2,796,297	$428,926	$20,554	$3,600	$3,249,377	$2,239	$3,251,616

See accompanying Notes to Consolidated Financial Statements

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

1. General Basis of Presentation

The interim consolidated financial statements included herein have been prepared by Duke Realty Corporation (the "General Partner") and Duke Realty Limited Partnership (the "Partnership"). In this Report, unless the context indicates otherwise, the terms "Company," "we," "us" and "our" refer to the General Partner and the Partnership, collectively, and those entities owned or controlled by the General Partner and/or the Partnership. The 2013 year-end consolidated balance sheet data included in this Quarterly Report on Form 10-Q (this "Report") was derived from the audited financial statements in the combined Annual Report on Form 10-K of the General Partner and the Partnership for the year ended December 31, 2013, but does not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP"). The financial statements have been prepared in accordance with GAAP for interim financial information and in accordance with Rule 10-01 of Regulation S-X of the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenue and expenses during the reporting period. Our actual results could differ from those estimates and assumptions. These financial statements should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included herein and the consolidated financial statements and notes thereto included in the combined Annual Report on Form 10-K of the General Partner and the Partnership for the year ended December 31, 2013.

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

The General Partner is the sole general partner of the Partnership, owning approximately 98.7% of the common partnership interests of the Partnership ("General Partner Units") at June 30, 2014. The remaining 1.3% of the common partnership interests ("Limited Partner Units" and, together with the General Partner Units, the "Common Units") are owned by limited partners. As the sole general partner of the Partnership, the General Partner has full, exclusive and complete responsibility and discretion in the day-to-day management and control of the Partnership.

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

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

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

2. New Accounting Pronouncements

Discontinued Operations

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU 2014-08"). Under ASU 2014-08, only disposals representing a strategic shift in operations (for example, a disposal of a major geographic area or a major line of business) will be presented as discontinued operations, while significant continuing involvement with such dispositions will no longer preclude discontinued operations classification. As current GAAP generally requires companies that sell a single investment property to report the sale as a discontinued operation, the implementation of ASU 2014-08 will result in us reporting only sales that represent strategic shifts in operations as discontinued operations. ASU 2014-08 will also require additional disclosures for discontinued operations as well as for material property dispositions that do not meet the new criteria for discontinued operation classification.

ASU 2014-08 is effective for fiscal years beginning on or after December 15, 2014, with early adoption permitted only for disposals or classifications as held for sale that have not been reported in financial statements previously issued or available for issuance. We adopted ASU 2014-08 early and have applied it with respect to such items since April 1, 2014.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”). ASU 2014-09 is a comprehensive revenue recognition standard that will supersede nearly all existing GAAP revenue recognition guidance as well as impact the existing GAAP guidance governing the sale of nonfinancial assets. The standard’s core principle is that a company will recognize revenue when it satisfies performance obligations, by transferring promised goods or services to customers, in an amount that reflects the consideration to which the company expects to be entitled in exchange for fulfilling those performance obligations. In doing so, companies will need to exercise more judgment and make more estimates than under existing GAAP guidance.

ASU 2014-09 will be effective for public entities for annual and interim reporting periods beginning after December 15, 2016 and early adoption is not permitted. ASU 2014-09 allows for either recognizing the cumulative effect of application (i) at the start of the earliest comparative period presented (with the option to use any or all of three practical expedients) or (ii) at the date of initial application, with no restatement of comparative periods presented. We have not yet selected a transition method nor have we determined the effect of ASU 2014-09 on our ongoing financial reporting.

3. Reclassifications

Certain amounts in the accompanying consolidated financial statements for 2013 have been reclassified to conform to the 2014 consolidated financial statement presentation.

4. Variable Interest Entities

In June 2014, one of our unconsolidated joint ventures, which we had previously determined to be a variable interest entity ("VIE"), sold its sole property and repaid all of its third-party debt. The sale of this property caused the joint venture to no longer meet the criteria to be considered a VIE. As such, at June 30, 2014, there was one remaining unconsolidated joint venture that met the criteria to be considered a VIE. This unconsolidated joint venture was formed with the sole purpose of developing, constructing, leasing, marketing and selling or operating properties. The business activities of this unconsolidated joint venture have been financed through a combination of equity contributions, partner/member loans, and third-party debt that we have guaranteed. All significant decisions for this unconsolidated joint venture, including those decisions that most significantly impact its economic performance, require unanimous approval of the joint venture's partners or members. In certain cases, these decisions also require lender approval. Unanimous approval requirements for this unconsolidated joint venture include entering into new leases, setting annual operating budgets, selling underlying properties, and incurring additional indebtedness. Because no single entity exercises control over the decisions that most significantly affect this joint venture's economic performance, we determined there to be no individual primary beneficiary and that the equity method of accounting is appropriate.

The following table provides a summary of the carrying value in our consolidated balance sheet, as well as our maximum loss exposure under the guarantee for the one unconsolidated subsidiary that we have determined to be a VIE at June 30, 2014 (in millions):

	Carrying Value	Maximum Loss Exposure
Investment in unconsolidated companies	$6.2	$ 6.2
Guarantee obligations (1)	$(5.0)	$ (99.4)

(1) We are party to a guarantee of the third-party debt of the joint venture that we have determined is a VIE, and our maximum loss exposure is equal to the outstanding borrowings on the joint venture's debt. The carrying value of our recorded guarantee obligation is included in other liabilities in our Consolidated Balance Sheets.

Our maximum loss exposure for guarantees of joint venture indebtedness, including guarantees of the debt of joint ventures that are not VIEs, totaled $212.9 million at June 30, 2014.

5. Acquisitions and Dispositions

2014 Acquisitions

We acquired two industrial properties, a building in Atlanta, Georgia and a building in the Lehigh Valley region of Pennsylvania, during the six months ended June 30, 2014. The following table summarizes the fair value of amounts recognized for each major class of asset and liability (in thousands) for these acquisitions:

Real estate assets	$80,731
Lease related intangible assets	9,857
Total acquired assets	90,588
Other liabilities	54
Total assumed liabilities	54
Fair value of acquired net assets	$90,534

The leases in the acquired properties had a remaining life at acquisition of approximately 9.2 years.

We have included $1.6 million in rental revenues and $5,000 in earnings from continuing operations during 2014 for these properties since their respective dates of acquisition.

Fair Value Measurements

The fair value estimates used in allocating the aggregate purchase price of each acquisition among the individual components of real estate assets and liabilities were determined primarily through calculating the "as-if vacant" value of each building, using the income approach, and relied significantly upon internally determined assumptions. We have determined these estimates to have been primarily based upon Level 3 inputs, which are unobservable inputs based on our own assumptions. The range of most significant assumptions utilized in making the lease-up and future disposition estimates used in calculating the "as-if vacant" value of each building acquired during the six months ended June 30, 2014 were as follows:

	Low		High	
Discount rate	7.38	%	7.68	%
Exit capitalization rate	5.98	%	6.38	%
Lease-up period (months)	12		12	
Net rental rate per square foot – Industrial	$2.75		$4.46	

Acquisition-Related Activity

The acquisition-related activity in our Consolidated Statements of Operations and Comprehensive Income for the six months ended June 30, 2014 and 2013 consisted of transaction costs related to completed acquisitions, which are expensed as incurred, as well as gains or losses related to acquisitions where we had a pre-existing non-controlling ownership interest. We expensed $761,000 and $2.7 million, respectively, for acquisition-related transaction costs incurred in the six months ended June 30, 2014 and 2013. During the six months ended June 30, 2013, we also recognized a gain of $962,000 on the pre-existing ownership interest that we held in an industrial property we acquired in that period.

Dispositions

We disposed of 21 consolidated income-producing real estate assets and 86 acres of undeveloped land during the six months ended June 30, 2014. We received net cash proceeds from property and land dispositions of $213.0 million and $259.2 million during the six months ended June 30, 2014 and 2013, respectively.

Income tax expense from continuing operations of $3.0 million was the result of the sale of a property that was partially owned by our taxable REIT subsidiary but, due to continuing involvement in managing the property, was not classified as a discontinued operation. Income tax expense included in discontinued operations of $3.5 million was also the result of the sale of a property that was partially owned by our taxable REIT subsidiary where we have no continuing involvement.

During the six months ended June 30, 2014, two office properties were sold by two of our unconsolidated joint ventures, for which our capital distributions totaled $40.3 million and our share of gains, which are included in equity in earnings, totaled $58.3 million. These two office properties included a 436,000 square foot office tower in Atlanta, Georgia.

6. Indebtedness

All debt is held directly or indirectly by the Partnership. The General Partner does not have any indebtedness, but does guarantee some of the unsecured debt of the Partnership. The following table summarizes the book value and changes in the fair value of our debt for the six months ended June 30, 2014 (in thousands):

	Book Value at 12/31/13	Book Value at 6/30/14	Fair Value at 12/31/13	Payments/Payoffs		Adjustments to Fair Value		Fair Value at 6/30/14
Fixed rate secured debt	$1,081,035	$1,004,327	$1,145,717	$ (74,144	)	$26,987		$1,098,560
Variable rate secured debt	19,089	4,335	19,089	(14,754	)	—		4,335
Unsecured debt	3,066,252	3,065,223	3,250,518	(1,029	)	83,352		3,332,841
Unsecured line of credit	88,000	60,000	88,383	(28,000	)	(141	)	60,242
Total	$4,254,376	$4,133,885	$4,503,707	$ (117,927	)	$110,198		$4,495,978

Secured Debt

Because our fixed rate secured debt is not actively traded in any marketplace, we utilized a discounted cash flow methodology to determine its fair value. Accordingly, we calculated fair value by applying an estimate of the current market rate to discount the debt's remaining contractual cash flows. Our estimate of a current market rate, which is the most significant input in the discounted cash flow calculation, is intended to replicate debt of similar maturity and loan-to-value relationship. The estimated rates ranged from 2.20% to 4.10%, depending on the attributes of the specific loans. The current market rates we utilized were internally estimated; therefore, we have concluded that our determination of fair value for our fixed rate secured debt was primarily based upon Level 3 inputs.

During the six months ended June 30, 2014, we repaid six secured loans, totaling $82.2 million. These loans had a weighted average stated interest rate of 5.59%.

Unsecured Debt

At June 30, 2014, with the exception of one variable rate term note, all of our unsecured debt bore interest at fixed rates and primarily consisted of unsecured notes that are publicly traded. We utilized broker estimates in estimating the fair value of our fixed rate unsecured debt. Our unsecured notes are thinly traded and, in certain cases, the broker estimates were not based upon comparable transactions. The broker estimates took into account any recent trades within the same series of our fixed rate unsecured debt, comparisons to recent trades of other series of our fixed rate unsecured debt, trades of fixed rate unsecured debt from companies with profiles similar to ours, as well as overall economic conditions. We reviewed these broker estimates for reasonableness and accuracy, considering whether the estimates were based upon market participant assumptions within the principal and most advantageous market and whether any other observable inputs would be more accurate indicators of fair value than the broker estimates. We concluded that the broker estimates were representative of fair value. We have determined that our estimation of the fair value of our fixed rate unsecured debt was primarily based upon Level 3 inputs. The estimated trading values of our fixed rate unsecured debt, depending on the maturity and coupon rates, ranged from 99.00% to 126.00% of face value.

We utilize a discounted cash flow methodology in order to estimate the fair value of our $250.0 million variable rate term loan. The net present value of the difference between future contractual interest payments and future interest payments based on our estimate of a current market rate represents the difference between the book value and the fair value. Our estimate of a current market rate was based on estimated market spreads and the quoted yields on federal government treasury securities with similar maturity dates. Our estimate of the current market rate for our variable rate term loan was 1.31% and was based primarily upon Level 3 inputs.

The indentures (and related supplemental indentures) governing our outstanding series of notes also require us to comply with financial ratios and other covenants regarding our operations. We were in compliance with all such covenants at June 30, 2014.

Unsecured Line of Credit

Our unsecured line of credit at June 30, 2014 is described as follows (in thousands):

Description	Maximum Capacity	Maturity Date	Outstanding Balance at June 30, 2014
Unsecured Line of Credit - Partnership	$850,000	December 2015	$60,000

The Partnership's unsecured line of credit has an interest rate on borrowings of LIBOR plus 1.25% (equal to 1.40% for outstanding borrowings at June 30, 2014) and a maturity date of December 2015. Subject to certain conditions, the terms also include an option to increase the facility by up to an additional $400.0 million, for a total of up to $1.25 billion. This line of credit provides us with an option to obtain borrowings from financial institutions that participate in the line at rates that may be lower than the stated interest rate, subject to certain restrictions.

This line of credit contains financial covenants that require us to meet certain financial ratios and defined levels of performance, including those related to fixed charge coverage, unsecured interest expense coverage and debt-to-asset value (with asset value being defined in the Partnership's unsecured line of credit agreement). At June 30, 2014, we were in compliance with all covenants under this line of credit.

To the extent that there are outstanding borrowings, we utilize a discounted cash flow methodology in order to estimate the fair value of our unsecured line of credit. The net present value of the difference between future contractual interest payments and future interest payments based on our estimate of a current market rate represents the difference between the book value and the fair value. Our estimate of a current market rate is based upon the rate, considering current market conditions and our specific credit profile, at which we estimate we could obtain similar borrowings. The current market rate of 1.41% that we utilized was internally estimated; therefore, we have concluded that our determination of fair value for our unsecured line of credit was primarily based upon a Level 3 input.

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

General Partner

In the first six months of 2014, pursuant to the share repurchase plan approved by our board of directors, the General Partner repurchased 750,243 preferred shares from among our three outstanding series. The preferred shares repurchased had a total redemption value of approximately $18.8 million and were repurchased for $17.7 million. In conjunction with the repurchases, approximately $618,000 of initial issuance costs, the ratable portion of such costs associated with the repurchased shares, were charged against income attributable to common shareholders. As the result of these repurchases, an adjustment of approximately $483,000 was included as an increase to net income attributable to common shareholders.

During the six months ended June 30, 2014, the General Partner issued 11.0 million common shares pursuant to its at the market equity program, generating gross proceeds of approximately $193.1 million and, after deducting commissions and other costs, net proceeds of approximately $191.1 million. The proceeds from these offerings were used for general corporate purposes, which include the funding of development costs.

In April 2014, the General Partner's shareholders approved an increase in the number of authorized shares of the General Partner's common stock from 400 million to 600 million.

Partnership

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

8. Related Party Transactions

We provide property management, asset management, leasing, construction and other tenant-related services to unconsolidated companies in which we have equity interests. We recorded the corresponding fees based on contractual terms that approximate market rates for these types of services and have eliminated our ownership percentage of these fees in the consolidated financial statements. The following table summarizes the fees earned from these companies, prior to the elimination of our ownership percentage, for the three and six months ended June 30, 2014 and 2013, respectively (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Management fees	$2,117	$2,170	$4,336	$4,626
Leasing fees	2,169	568	2,513	