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DUKE REALTY CORP

Form 10-Q

April 26, 2019

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2019

OR

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

For the transition period from _____ to _____

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

**DUKE REALTY CORPORATION
DUKE REALTY LIMITED PARTNERSHIP**

(Exact Name of Registrant as Specified in Its Charter)

Indiana (Duke Realty Corporation) 35-1740409 (Duke Realty Corporation)
Indiana (Duke Realty Limited Partnership) 35-1898425 (Duke Realty Limited Partnership)
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification Number)

600 East 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 No **Duke Realty Limited Partnership** Yes No

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

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

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

Duke Realty Corporation:

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

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

Duke Realty Limited Partnership:

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

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Emerging growth
company

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

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

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

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 April 24, 2019
Common Stock 0.01 par value per share	359,428,082

EXPLANATORY NOTE

This report (the "Report") combines the quarterly reports on Form 10-Q for the period ended March 31, 2019 of both Duke Realty Corporation and Duke Realty Limited Partnership. Unless stated otherwise or the context otherwise requires, references to "Duke Realty Corporation" or the "General Partner" mean Duke Realty Corporation and its consolidated subsidiaries, and references to the "Partnership" mean Duke Realty Limited Partnership and its consolidated subsidiaries. The terms the "Company," "we," "us" and "our" refer to the General Partner and the Partnership, collectively, and those entities owned or controlled by the General Partner and/or the Partnership. Duke Realty Corporation is a self-administered and self-managed real estate investment trust ("REIT") and is the sole general partner of the Partnership, owning 99.1% of the common partnership interests of the Partnership ("General Partner Units") as of March 31, 2019. The remaining 0.9% of the common partnership interests ("Limited Partner Units" and, together with the General Partner Units, the "Common Units") are owned by limited partners. As the sole general partner of the Partnership, the General Partner has full, exclusive and complete responsibility and discretion in the day-to-day management and control of the Partnership.

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

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

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

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

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

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

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

	March 31, 2019 (Unaudited)	December 31, 2018
ASSETS		
Real estate investments:		
Real estate assets	\$ 7,428,408	\$ 7,248,346
Construction in progress	482,326	477,162
Investments in and advances to unconsolidated joint ventures	116,679	110,795
Undeveloped land	379,839	360,816
	8,407,252	8,197,119
Accumulated depreciation	(1,380,313)	(1,344,176)
Net real estate investments	7,026,939	6,852,943
Real estate investments and other assets held-for-sale	1,940	1,082
Cash and cash equivalents	15,295	17,901
Accounts receivable	14,496	14,254
Straight-line rent receivable	115,210	109,334
Receivables on construction contracts, including retentions	24,095	41,215
Deferred leasing and other costs, net of accumulated amortization of \$199,478 and \$200,744	308,460	313,799
Notes receivable from property sales	237,550	272,550
Other escrow deposits and other assets	218,495	180,946
	\$ 7,962,480	\$ 7,804,024
LIABILITIES AND EQUITY		
Indebtedness:		
Secured debt, net of deferred financing costs of \$204 and \$238	\$ 36,896	\$ 79,563
Unsecured debt, net of deferred financing costs of \$25,072 and \$26,062	2,549,928	2,548,938
Unsecured line of credit	240,000	30,000
	2,826,824	2,658,501
Liabilities related to real estate investments held-for-sale	41	—
Construction payables and amounts due subcontractors, including retentions	76,380	92,288
Accrued real estate taxes	67,460	73,358
Accrued interest	26,932	16,153
Other liabilities	238,246	205,433
Tenant security deposits and prepaid rents	45,426	45,048
Total liabilities	3,281,309	3,090,781
Shareholders' equity:		
Common shares (\$0.01 par value); 600,000 shares authorized; 359,420 and 358,851 shares issued and outstanding, respectively	3,594	3,589
Additional paid-in capital	5,250,157	5,244,375
Accumulated other comprehensive loss	(14,018)	(4,676)
Distributions in excess of net income	(618,123)	(585,087)
Total shareholders' equity	4,621,610	4,658,201

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Noncontrolling interests	59,561	55,042
Total equity	4,681,171	4,713,243
	\$7,962,480	\$ 7,804,024

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 months ended March 31,
(in thousands, except per share amounts)
(Unaudited)

	2019	2018
Revenues:		
Rental and related revenue	\$ 209,965	\$ 193,456
General contractor and service fee revenue	54,964	41,101
	264,929	234,557
Expenses:		
Rental expenses	20,668	19,913
Real estate taxes	32,442	31,146
General contractor and other services expenses	52,586	40,409
Depreciation and amortization	75,992	77,529
	181,688	168,997
Other operating activities:		
Equity in earnings of unconsolidated joint ventures	4,715	8,287
Gain on sale of properties	(163)	) 44,886
Gain on land sales	750	2,949
Other operating expenses	(2,123)	) (1,269)
Non-incremental costs related to successful leases	(2,156)) —
General and administrative expenses	(21,983)	) (21,023)
	(20,960)	) 33,830
Operating income	62,281	99,390
Other income (expenses):		
Interest and other income, net	2,758	4,463
Interest expense	(22,132)	) (20,000)
Loss on debt extinguishment	(13)) —
Gain on involuntary conversion	2,259	—
Income from continuing operations before income taxes	45,153	83,853
Income tax expense	(385)	) (10,329)
Income from continuing operations	44,768	73,524
Discontinued operations:		
Loss before gain on sales	—	(8)
Gain on sale of properties	155	132
Income from discontinued operations	155	124
Net income	44,923	73,648
Net income attributable to noncontrolling interests	(372)	) (685)
Net income attributable to common shareholders	\$ 44,551	\$ 72,963
Basic net income per common share:		
Continuing operations attributable to common shareholders	\$ 0.12	\$ 0.20
Diluted net income per common share:		
Continuing operations attributable to common shareholders	\$ 0.12	\$ 0.20
Weighted average number of common shares outstanding	359,139	356,740
Weighted average number of common shares and potential dilutive securities	362,362	360,400
Comprehensive income:		
Net income	\$ 44,923	\$ 73,648
Other comprehensive loss:		

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Unrealized losses on interest rate swap contracts	(9,342)	—
Comprehensive income	\$35,581	\$73,648

See accompanying Notes to Consolidated Financial Statements

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DUKE REALTY CORPORATION AND SUBSIDIARIES**Consolidated Statements of Cash Flows****For the three months ended March 31,****(in thousands)****(Unaudited)**

	2019	2018
Cash flows from operating activities:		
Net income	\$44,923	\$73,648
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of buildings and tenant improvements	62,423	63,944
Amortization of deferred leasing and other costs	13,569	13,585
Amortization of deferred financing costs	1,562	1,418
Straight-line rental income and expense, net	(5,704)	(6,288)
Loss on debt extinguishment	13	—
Gain on involuntary conversion	(2,259)	—
Gains on land and property sales	(742)	(47,967)
Third-party construction contracts, net	11,700	(367)
Other accrued revenues and expenses, net	(10,893)	19,862
Equity in earnings in excess of operating distributions received from unconsolidated joint ventures	(33)	(4,673)
Net cash provided by operating activities	114,559	113,162
Cash flows from investing activities:		
Development of real estate investments	(85,772)	(104,346)
Acquisition of real estate investments and related intangible assets	(76,081)	(22,801)
Acquisition of undeveloped land	(53,551)	(67,256)
Second generation tenant improvements, leasing costs and building improvements	(10,245)	(14,102)
Other deferred leasing costs	(1,712)	(9,798)
Other assets	(9,381)	(685)
Proceeds from the repayments of notes receivable from property sales	35,000	39,868
Proceeds from land and property sales, net	1,910	131,380
Capital distributions from unconsolidated joint ventures	—	9,404
Capital contributions and advances to unconsolidated joint ventures	(6,474)	—
Net cash used for investing activities	(206,306)	(38,336)
Cash flows from financing activities:		
Proceeds from issuance of common shares, net	4,492	706
Payments on unsecured debt	—	(656)
Payments on secured indebtedness including principal amortization	(42,665)	(1,345)
Borrowings on line of credit, net	210,000	75,000
Distributions to common shareholders	(77,237)	(71,398)
Distributions to noncontrolling interests, net	(505)	(680)
Tax payments on stock-based compensation awards	(5,467)	(7,984)
Change in book cash overdrafts	9,700	(33,448)
Other financing activities	(9,920)	—
Deferred financing costs	—	(285)
Net cash provided by (used for) financing activities	88,398	(40,090)
Net (decrease) increase in cash, cash equivalents and restricted cash	(3,349)	34,736
Cash, cash equivalents and restricted cash at beginning of period	25,517	193,627
Cash, cash equivalents and restricted cash at end of period	\$22,168	\$228,363
Non-cash operating activities:		
Liabilities and right-of-use assets - operating leases	\$38,792	\$—

See accompanying Notes to Consolidated Financial Statements

DUKE REALTY CORPORATION AND SUBSIDIARIES**Consolidated Statements of Changes in Equity****For the three months ended March 31, 2019 and 2018****(in thousands, except per share data)****(Unaudited)**

	Common Shareholders				
	Common Stock	Additional Paid-in Capital	Distributions in Excess of Net Income	Noncontrolling Interests	Total
Balance at December 31, 2017	\$3,564	\$5,205,316	\$ (676,036)	\$ 41,534	\$4,574,378
Net income	—	—	72,963	685	73,648
Issuance of common shares	—	706	—	—	706
Stock-based compensation plan activity	6	(1,167)	(449)	6,140	4,530
Distributions to common shareholders (\$0.20 per share)	—	—	(71,398)	—	(71,398)
Distributions to noncontrolling interests	—	—	—	(680)	(680)
Balance at March 31, 2018	\$3,570	\$5,204,855	\$ (674,920)	\$ 47,679	\$4,581,184

	Common Shareholders					
	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Distributions in Excess of Net Income	Noncontrolling Interests	Total
Balance at December 31, 2018	\$3,589	\$5,244,375	\$ (4,676)	\$ (585,087)	\$ 55,042	\$4,713,243
Net income	—	—	—	44,551	372	44,923
Other comprehensive loss	—	—	(9,342)	—	—	(9,342)
Issuance of common shares	1	4,491	—	—	—	4,492
Contributions from noncontrolling interests	—	—	—	—	312	312
Stock-based compensation plan activity	4	1,291	—	(350)	4,652	5,597
Distributions to common shareholders (\$0.215 per share)	—	—	—	(77,237)	—	(77,237)
Distributions to noncontrolling interests	—	—	—	—	(817)	(817)
Balance at March 31, 2019	\$3,594	\$5,250,157	\$ (14,018)	\$ (618,123)	\$ 59,561	\$4,681,171

See accompanying Notes to Consolidated Financial Statements

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

	March 31, 2019	December 31, 2018
	(Unaudited)	
ASSETS		
Real estate investments:		
Real estate assets	\$ 7,428,408	\$ 7,248,346
Construction in progress	482,326	477,162
Investments in and advances to unconsolidated joint ventures	116,679	110,795
Undeveloped land	379,839	360,816
	8,407,252	8,197,119
Accumulated depreciation	(1,380,313)	(1,344,176)
Net real estate investments	7,026,939	6,852,943
Real estate investments and other assets held-for-sale	1,940	1,082
Cash and cash equivalents	15,295	17,901
Accounts receivable	14,496	14,254
Straight-line rent receivable	115,210	109,334
Receivables on construction contracts, including retentions	24,095	41,215
Deferred leasing and other costs, net of accumulated amortization of \$199,478 and \$200,744	308,460	313,799
Notes receivable from property sales	237,550	272,550
Other escrow deposits and other assets	218,495	180,946
	\$ 7,962,480	\$ 7,804,024
LIABILITIES AND EQUITY		
Indebtedness:		
Secured debt, net of deferred financing costs of \$204 and \$238	\$ 36,896	\$ 79,563
Unsecured debt, net of deferred financing costs of \$25,072 and \$26,062	2,549,928	2,548,938
Unsecured line of credit	240,000	30,000
	2,826,824	2,658,501
Liabilities related to real estate investments held-for-sale	41	—
Construction payables and amounts due subcontractors, including retentions	76,380	92,288
Accrued real estate taxes	67,460	73,358
Accrued interest	26,932	16,153
Other liabilities	238,246	205,433
Tenant security deposits and prepaid rents	45,426	45,048
Total liabilities	3,281,309	3,090,781
Partners' equity:		
Common equity (359,420 and 358,851 General Partner Units issued and outstanding, respectively)	4,635,628	4,662,877
Limited Partners' common equity (3,149 and 2,920 Limited Partner Units issued and outstanding, respectively)	54,941	50,585
Accumulated other comprehensive loss	(14,018)	(4,676)
Total partners' equity	4,676,551	4,708,786
Noncontrolling interests	4,620	4,457
Total equity	4,681,171	4,713,243
	\$ 7,962,480	\$ 7,804,024

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 months ended March 31,
(in thousands, except per unit amounts)
(Unaudited)

	2019	2018
Revenues:		
Rental and related revenue	\$209,965	\$193,456
General contractor and service fee revenue	54,964	41,101
	264,929	234,557
Expenses:		
Rental expenses	20,668	19,913
Real estate taxes	32,442	31,146
General contractor and other services expenses	52,586	40,409
Depreciation and amortization	75,992	77,529
	181,688	168,997
Other operating activities:		
Equity in earnings of unconsolidated joint ventures	4,715	8,287
Gain on sale of properties	(163)	) 44,886
Gain on land sales	750	2,949
Other operating expenses	(2,123)	) (1,269)
Non-incremental costs related to successful leases	(2,156)) —
General and administrative expenses	(21,983)	) (21,023)
	(20,960)	) 33,830
Operating income	62,281	99,390
Other income (expenses):		
Interest and other income, net	2,758	4,463
Interest expense	(22,132)	) (20,000)
Loss on debt extinguishment	(13)) —
Gain on involuntary conversion	2,259	—
Income from continuing operations before income taxes	45,153	83,853
Income tax expense	(385)	) (10,329)
Income from continuing operations	44,768	73,524
Discontinued operations:		
Loss before gain on sales	—	(8)
Gain on sale of properties	155	132
Income from discontinued operations	155	124
Net income	44,923	73,648
Net loss (income) attributable to noncontrolling interests	10	(2)
Net income attributable to common unitholders	\$44,933	\$73,646
Basic net income per Common Unit:		
Continuing operations attributable to common unitholders	\$0.12	\$0.20
Diluted net income per Common Unit:		
Continuing operations attributable to common unitholders	\$0.12	\$0.20
Weighted average number of Common Units outstanding	362,204	360,095
Weighted average number of Common Units and potential dilutive securities	362,362	360,400
Comprehensive income:		
Net income	\$44,923	\$73,648
Other comprehensive loss:		
Unrealized losses on interest rate swap contracts	(9,342)) —

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Comprehensive income

\$35,581 \$73,648

See accompanying Notes to Consolidated Financial Statements

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DUKE REALTY LIMITED PARTNERSHIP AND SUBSIDIARIES**Consolidated Statements of Cash Flows****For the three months ended March 31,****(in thousands)****(Unaudited)**

	2019	2018
Cash flows from operating activities:		
Net income	\$44,923	\$73,648
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of buildings and tenant improvements	62,423	63,944
Amortization of deferred leasing and other costs	13,569	13,585
Amortization of deferred financing costs	1,562	1,418
Straight-line rental income and expense, net	(5,704)	(6,288)
Loss on debt extinguishment	13	—
Gain on involuntary conversion	(2,259)	—
Gains on land and property sales	(742)	(47,967)
Third-party construction contracts, net	11,700	(367)
Other accrued revenues and expenses, net	(10,893)	19,862
Equity in earnings in excess of operating distributions received from unconsolidated joint ventures	(33)	(4,673)
Net cash provided by operating activities	114,559	113,162
Cash flows from investing activities:		
Development of real estate investments	(85,772)	(104,346)
Acquisition of real estate investments and related intangible assets	(76,081)	(22,801)
Acquisition of undeveloped land	(53,551)	(67,256)
Second generation tenant improvements, leasing costs and building improvements	(10,245)	(14,102)
Other deferred leasing costs	(1,712)	(9,798)
Other assets	(9,381)	(685)
Proceeds from the repayments of notes receivable from property sales	35,000	39,868
Proceeds from land and property sales, net	1,910	131,380
Capital distributions from unconsolidated joint ventures	—	9,404
Capital contributions and advances to unconsolidated joint ventures	(6,474)	—
Net cash used for investing activities	(206,306)	(38,336)
Cash flows from financing activities:		
Contributions from the General Partner	4,492	706
Payments on unsecured debt	—	(656)
Payments on secured indebtedness including principal amortization	(42,665)	(1,345)
Borrowings on line of credit, net	210,000	75,000
Distributions to common unitholders	(77,915)	(72,078)
Contributions from noncontrolling interests, net	173	—
Tax payments on stock-based compensation awards	(5,467)	(7,984)
Change in book cash overdrafts	9,700	(33,448)
Other financing activities	(9,920)	—
Deferred financing costs	—	(285)
Net cash provided by (used for) financing activities	88,398	(40,090)
Net (decrease) increase in cash, cash equivalents and restricted cash	(3,349)	34,736
Cash, cash equivalents and restricted cash at beginning of period	25,517	193,627
Cash, cash equivalents and restricted cash at end of period	\$22,168	\$228,363
Non-cash operating activities:		
Liabilities and right-of-use assets - operating leases	\$38,792	\$—

See accompanying Notes to Consolidated Financial Statements

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DUKE REALTY LIMITED PARTNERSHIP AND SUBSIDIARIES**Consolidated Statements of Changes in Equity****For the three months ended March 31, 2019 and 2018****(in thousands, except per unit data)****(Unaudited)**

	Common Unitholders				
	General Partner's	Limited Partners' Common Equity	Accumulated Other Comprehensive Partners' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2017	\$4,532,844	\$40,563	\$4,573,407	\$ 971	\$4,574,378
Net income	72,963	683	73,646	2	73,648
Capital contribution from the General Partner	706	—	706	—	706
Stock-based compensation plan activity	(1,610)	6,140	4,530	—	4,530
Distributions to common unitholders (\$0.20 per Common Unit)	(71,398)	(680)	(72,078)	—	(72,078)
Balance at March 31, 2018	\$4,533,505	\$46,706	\$4,580,211	\$ 973	\$4,581,184

	Common Unitholders					
	General Partner's	Limited Partners' Common Equity	Accumulated Other Comprehensive Partners' Equity	Noncontrolling Interests	Total Equity	Total Equity
Balance at December 31, 2018	\$4,662,877	\$50,585	\$ (4,676)	\$4,708,786	\$ 4,457	\$4,713,243
Net income	44,551	382	—	44,933	(10)	44,923
Other comprehensive loss	—	—	(9,342)	(9,342)	—	(9,342)
Capital contribution from the General Partner	4,492	—	—	4,492	—	4,492
Stock-based compensation plan activity	945	4,652	—	5,597	—	5,597
Contributions from noncontrolling interests	—	—	—	—	312	312
Distributions to common unitholders (\$0.215 per Common Unit)	(77,237)	(678)	—	(77,915)	—	(77,915)
Distributions to noncontrolling interests	—	—	—	—	(139)	(139)
Balance at March 31, 2019	\$4,635,628	\$54,941	\$ (14,018)	\$4,676,551	\$ 4,620	\$4,681,171

See accompanying Notes to Consolidated Financial Statements

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

1. General Basis of Presentation

The interim consolidated financial statements included herein have been prepared by the General Partner and the Partnership. The 2018 year-end consolidated balance sheet data included in this Report was derived from the audited financial statements in the combined Annual Report on Form 10-K of the General Partner and the Partnership for the year ended December 31, 2018 (the "2018 Annual Report"), but does not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP"). The financial statements have been prepared in accordance with GAAP for interim financial information and in accordance with Rule 10-01 of Regulation S-X of the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenue and expenses during the reporting period. Our actual results could differ from those estimates and assumptions. These financial statements should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included herein and the consolidated financial statements and notes thereto included in the 2018 Annual Report.

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

The General Partner is the sole general partner of the Partnership, owning approximately 99.1% of the Common Units at March 31, 2019. The remaining 0.9% of the Common Units are owned by limited partners. As the sole general partner of the Partnership, the General Partner has full, exclusive and complete responsibility and discretion in the day-to-day management and control of the Partnership. The General Partner and the Partnership are operated as one enterprise. The management of the General Partner consists of the same members as the management of the Partnership. As the sole general partner with control of the Partnership, the General Partner consolidates the Partnership for financial reporting purposes, and the General Partner does not have any significant assets other than its investment in the Partnership. Therefore, the assets and liabilities of the General Partner and the Partnership are substantially the same.

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

As of March 31, 2019, we owned and operated a portfolio primarily consisting of industrial properties and provided real estate services to third-party owners. Substantially all of our Rental Operations (see Note 10) are conducted through the Partnership. We conduct our Service Operations (see Note 10) through Duke Realty Services, LLC, Duke Realty Services Limited Partnership and Duke Construction Limited Partnership ("DCLP"), which are consolidated entities that are 100% owned by a combination of the General Partner and the Partnership. DCLP is owned through a taxable REIT subsidiary. The consolidated financial statements include our accounts and the accounts of our majority-owned or controlled subsidiaries.

2. New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

Leases

On January 1, 2019, we adopted Accounting Standards Codification ("ASC") 842, *Leases* ("ASC 842"), utilizing the available election to adopt on a prospective basis. ASC 842 has superseded all previous GAAP guidance for accounting for leases.

As part of adoption, we elected the package of practical expedients available for implementation, which included: (i) relief from re-assessing whether an expired or existing contract meets the definition of a lease, (ii) relief from re-assessing the classification of expired or existing leases at the adoption date and (iii) allowing previously capitalized initial direct leasing costs to continue to be amortized. Due in large part to electing these practical expedients, the adoption of ASC 842 did not result in recording a cumulative adjustment to the opening balance of distributions in excess of net income.

Lessor Accounting

Our primary business is the development, acquisition, and operation of industrial real estate properties that are held for investment and leased to tenants. Due to electing the package of practical expedients that allow for relief from re-assessing the classification of existing leases at the adoption date, as well as based on the characteristics of our underlying assets and leases, all of our leases are classified as operating leases. We manage residual risk through investing in properties that we believe will appreciate in value over time. We also perform a credit analysis for tenants prior to leases being executed, and on an ongoing basis, and ensure collectability is probable prior to recognizing lease revenues on an accrual basis. For lessors, the accounting under ASC 842 remains largely unchanged with the notable exception that ASC 842 requires that lessors expense certain initial direct costs, which were capitalizable under prior leasing standards, as incurred. Under the new standard, only the incremental costs of signing a lease are capitalizable and we recognized \$2.2 million of expense for internal costs related to successful leases for the three months ended March 31, 2019, presented separately on the Consolidated Statements of Operations and Comprehensive Income, which previously would have been capitalized. For the three months ended March 31, 2018, we capitalized \$4.7 million of internal lease related costs which would have been expensed had ASC 842 been effective.

ASC 842 also provides lessors an additional practical expedient to not separate rental recovery revenue related to lease-related services from the associated rental revenue related to the lease when certain criteria are met. The lease-related services provided to our tenants include property management, common area maintenance and utilities. We assessed the applicable criteria, concluding that the timing and pattern of transfer for our lease-related services and the revenue from the underlying leases are the same and that lease classification does not change, and elected to apply this additional practical expedient.

All revenues related to lease and lease-related services are included in, and comprise substantially all of, the caption "Rental and Related Revenue" on the Consolidated Statements of Operations and Comprehensive Income. The components of Rental and Related Revenue are as follows (in thousands):

	March 31, 2019
Rental revenue - fixed payments	\$ 156,674
Rental revenue - variable payments (1)	53,291
Rental and related revenue	\$ 209,965

(1) Primarily includes tenant recoveries for real estate taxes, insurance and common area maintenance.

The future minimum rents due to us under non-cancelable operating leases are as follows (in thousands):

Year	March 31, 2019	December 31, 2018
2019	\$463,579	\$600,385
2020	604,917	586,609
2021	548,979	529,961
2022	480,747	463,462
2023	411,773	397,150
Thereafter	1,637,200	1,582,598
	\$4,147,195	\$4,160,165

Lessee Accounting

ASC 842 requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification determines whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use ("ROU") asset and a lease liability for all leases with a term of greater than 12 months regardless of classification.

As of March 31, 2019, our lease arrangements primarily consisted of office and ground leases. Adoption of the practical expedients resulted in the continued classification of our leases as operating leases. Expense recognized on these leases for the three months ended March 31, 2019 was not material.

For these arrangements, we recognized a ROU asset and a corresponding lease liability at the January 1, 2019 adoption date of ASC 842, representing the discounted value of future lease payments required under our lease arrangements. A \$38.8 million ROU asset, net of pre-existing lease related accruals, was included in Other Escrow Deposits and Other Assets, and a corresponding lease liability of \$44.5 million was included in Other Liabilities on our Consolidated Balance Sheets as of March 31, 2019. In determining these amounts we elected an available practical expedient that allows us, as a lessee, to not separate lease and non-lease components.

The following table summarizes the future operating lease payments (in thousands) to be made under our non-cancellable lease arrangements:

Year	March 31, 2019	December 31, 2018
2019	\$4,618	\$6,487
2020	7,594	7,594
2021	2,987	2,987
2022	2,255	2,255
2023	1,949	1,949
Thereafter	85,523	85,523
Total undiscounted operating lease payments	\$104,926	\$106,795
Less: imputed interest	(60,454)	
Present value of operating lease payments	\$44,472	

The weighted average remaining lease term for our lease arrangements, on a combined basis as of March 31, 2019, was 32.9 years. The weighted average discount rate for our lease arrangements as of March 31, 2019 was 4.62%. As the discount rates implied in our lease arrangements are not readily determinable, we utilized our current credit ratings and credit yields observed from market traded securities with similar credit ratings to form a reasonable basis to establish secured borrowing rates when determining the present value of future lease payments.

3. Reclassifications

Certain amounts in the accompanying consolidated financial statements for 2018 have been reclassified to conform to the 2019 consolidated financial statement presentation.

4. Restricted Cash

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

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

	March 31,	December 31,
	2019	2018
Cash and cash equivalents	\$ 15,295	\$ 17,901
Restricted cash included in other escrow deposits and other assets	6,873	7,616
Total cash, cash equivalents, and restricted cash shown in the Consolidated Statements of Cash Flows	\$ 22,168	\$ 25,517

5. Variable Interest Entities

Partnership

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

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

Joint Ventures

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

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

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

There were no unconsolidated joint ventures, in which we have any recognized assets or liabilities or have retained any economic exposure to loss at March 31, 2019, that met the criteria to be considered VIEs. Our maximum loss exposure for guarantees of unconsolidated joint venture indebtedness, none of which relate to VIEs, totaled \$124.1 million at March 31, 2019.

6. Acquisitions and Dispositions

Acquisitions and dispositions for the periods presented were completed in accordance with our strategy to reposition our investment concentration among the markets in which we operate and to increase our overall investments in quality industrial projects. Transaction costs related to asset acquisitions are capitalized and transaction costs related to business combinations and dispositions are expensed.

Acquisitions

We paid cash of \$76.1 million and \$22.8 million for asset acquisitions during the three months ended March 31, 2019 and 2018, respectively.

We acquired two properties during the three months ended March 31, 2019. We determined that these two properties did not meet the definition of a business and, accordingly, we accounted for them as asset acquisitions as opposed to business combinations.

The following table summarizes amounts recognized for each major class of assets (in thousands) for these acquisitions during the three months ended March 31, 2019:

Real estate assets	\$74,486
Lease related intangible assets	3,207
Fair value of acquired net assets	\$77,693

The leases in the acquired properties had a weighted average remaining life at acquisition of approximately 5.9 years.

Fair Value Measurements

We determine the fair value of the individual components of real estate asset acquisitions primarily through calculating the "as-if vacant" value of a building, using an income approach, which relies significantly upon internally determined assumptions. We have determined that these estimates primarily rely upon level 3 inputs, which are unobservable inputs based on our own assumptions. The most significant assumptions used in calculating the "as-if vacant" value for acquisition activity during the three months ended March 31, 2019 are as follows:

	Low	High
Exit capitalization rate	4.23%	4.62%
Net rental rate per square foot	\$5.90	\$7.08

Capitalized acquisition costs were insignificant and the fair value of the two properties acquired during the three months ended March 31, 2019 was substantially the same as the cost of acquisition.

Dispositions

Dispositions of buildings and undeveloped land generated net cash proceeds of \$1.9 million and \$131.4 million during the three months ended March 31, 2019 and 2018, respectively. Additionally, during the three months ended March 31, 2019, we collected \$35.0 million of principal on notes receivable primarily related to the sale of our medical office portfolio (the "Medical Office Portfolio Disposition") during 2017. The number of buildings sold, as well as their classification between continuing and discontinued operations, is disclosed in Note 11.

7. Indebtedness

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

	Book Value at 12/31/2018	Book Value at 3/31/2019	Fair Value at 12/31/2018	Issuances and Assumptions	Payments/Payoffs	Adjustments to Fair Value	Fair Value at 3/31/2019
Fixed rate secured debt	\$ 77,601	\$ 34,900	\$ 80,238	\$ —	\$ (42,665)	\$ (380)	\$ 37,193
Variable rate secured debt	2,200	2,200	2,200	—	—	—	2,200
Unsecured debt	2,575,000	2,575,000	2,549,963	—	—	80,200	2,630,163
Unsecured line of credit	30,000	240,000	30,000	210,000	—	—	240,000
Total	\$ 2,684,801	\$ 2,852,100	\$ 2,662,401	\$ 210,000	\$ (42,665)	\$ 79,820	\$ 2,909,556
Less: Deferred financing costs	26,300	25,276					
Total indebtedness as reported on the consolidated balance sheets	\$ 2,658,501	\$ 2,826,824					

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 3.70% to 3.80%, 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 three months ended March 31, 2019, we repaid three fixed rate secured loans, totaling \$41.7 million, which had a weighted average stated interest rate of 7.76%.

Unsecured Debt

At March 31, 2019, 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 124.00% of face value.

The indentures (and related supplemental indentures) governing our outstanding series of unsecured notes also require us to comply with financial ratios and other covenants regarding our operations. We were in compliance with all such financial covenants at March 31, 2019.

Unsecured Line of Credit

Our unsecured line of credit at March 31, 2019 is described as follows (in thousands):

Description	Borrowing Capacity	Maturity Date	Outstanding Balance at March 31, 2019
Unsecured Line of Credit - Partnership	\$ 1,200,000	January 30, 2022	\$ 240,000

The Partnership's unsecured line of credit has an interest rate on borrowings of LIBOR plus 0.875% (equal to 3.38% for our outstanding borrowings at March 31, 2019) and has a maturity date of January 30, 2022, with options to extend until January 30, 2023. Subject to certain conditions, the terms also include an option to increase the facility by up to an additional \$800.0 million, for a total of up to \$2.00 billion. This line of credit provides us with an option to obtain borrowings from financial institutions that participate in the line at rates that may be lower than the stated interest rate, subject to certain restrictions.

This line of credit contains financial covenants that require us to meet certain financial ratios and defined levels of performance, including those related to fixed charge coverage, unsecured interest expense coverage and debt-to-asset value (with asset value being defined in the Partnership's unsecured line of credit agreement). At March 31, 2019, we were in compliance with all financial covenants under this line of credit.

We utilize a discounted cash flow methodology in order to estimate the fair value of outstanding borrowings on our unsecured line of credit. To the extent that credit spreads have changed since the origination of the line of credit, the net present value of the difference between future contractual interest payments and future interest payments based on our estimate of a current market rate would represent the difference between the book value and the fair value. Our estimate of a current market rate is based upon the rate, considering current market conditions and our specific credit profile, at which we estimate we could obtain similar borrowings. As our credit spreads have not changed appreciably, we believe that the contractual interest rate and the current market rate on the line of credit are the same. The current market rate is internally estimated and therefore is primarily based upon a level 3 input.

8. Related Party Transactions

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

	Three Months Ended March 31, 2019 2018	
Management fees	\$422	\$442
Leasing fees	148	302
Construction and development fees	2,196	697

9. Net Income per Common Share or Common Unit

Basic net income per common share or Common Unit is computed by dividing net income attributable to common shareholders or common unitholders, less dividends or distributions on share-based awards expected to vest (referred to as "participating securities" and primarily composed of unvested restricted stock units), by the weighted average number of common shares or Common Units outstanding for the period.

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

	Three Months Ended March 31, 2019 2018	
<u>General Partner</u>		
Net income attributable to common shareholders	\$44,551	\$72,963
Less: dividends on participating securities	(388)	(437)
Basic net income attributable to common shareholders	44,163	72,526
Add back dividends on dilutive participating securities	—	—
Noncontrolling interest in earnings of common unitholders	382	683
Diluted net income attributable to common shareholders	\$44,545	\$73,209
Weighted average number of common shares outstanding	359,139	356,740
Weighted average Limited Partner Units outstanding	3,065	3,355
Other potential dilutive shares	158	305
Weighted average number of common shares and potential dilutive securities	362,362	360,400
<u>Partnership</u>		
Net income attributable to common unitholders	\$44,933	\$73,646
Less: distributions on participating securities	(388)	(437)
Basic net income attributable to common unitholders	\$44,545	\$73,209
Add back distributions on dilutive participating securities	—	—
Diluted net income attributable to common unitholders	\$44,545	\$73,209
Weighted average number of Common Units outstanding	362,204	360,095
Other potential dilutive units	158	305
Weighted average number of Common Units and potential dilutive securities	362,362	360,400

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

	Three Months Ended March 31, 2019 2018	
<u>General Partner and Partnership</u>		
Other potential dilutive shares or units:		
Anti-dilutive outstanding potential shares or units under fixed stock option and other stock-based compensation plans	—	—
Anti-dilutive outstanding participating securities	1,967	2,272

10. Segment Reporting

Reportable Segments

As of March 31, 2019, we had two reportable operating segments, the first consisting of the ownership and rental of industrial real estate investments. Our ongoing investments in new real estate investments are determined largely upon anticipated geographic trends in supply and demand for industrial buildings, as well as the real estate needs of our major tenants that operate on a national level. Our strategic initiatives and our allocation of resources have been historically based upon allocation among product types, which was consistent with our designation of reportable segments, and after having sold nearly all of our office and medical office properties we intend to increase our investment in industrial properties and treat them as a single operating and reportable segment. Properties not included in our reportable segments, because they are not industrial properties and do not by themselves meet the quantitative thresholds for separate presentation as a reportable segment, are generally referred to as non-reportable Rental Operations. Our non-reportable Rental Operations primarily include our remaining office properties and medical office property at March 31, 2019. The operations of our industrial properties, as well as our non-reportable Rental Operations, are collectively referred to as "Rental Operations."

Our second reportable segment consists of various real estate services such as property management, asset management, maintenance, leasing, development, general contracting and construction management to third-party property owners and joint ventures, and is collectively referred to as "Service Operations." The Service Operations segment is identified as one single operating segment because the lowest level of financial results reviewed by our chief operating decision maker are the results for the Service Operations segment in total. Further, our reportable segments are managed separately because each segment requires different operating strategies and management expertise.

Revenues by Reportable Segment

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

	Three Months Ended March 31,	
	2019	2018
<u>Revenues</u>		
Rental Operations:		
Industrial	\$208,403	\$189,315
Non-reportable Rental Operations	1,452	3,453
Service Operations	54,964	41,101
Total segment revenues	264,819	233,869
Other revenue	110	688
Consolidated revenue from continuing operations	264,929	234,557
Discontinued operations	—	5
Consolidated revenue	\$264,929	\$234,562

Supplemental Performance Measure

Property-level net operating income on a cash basis ("PNOI") is the non-GAAP supplemental performance measure that we use to evaluate the performance of, and to allocate resources among, the real estate investments in the reportable and operating segments that comprise our Rental Operations. PNOI for our Rental Operations segments is comprised of rental revenues from continuing operations less rental expenses and real estate taxes from continuing operations, along with certain other adjusting items (collectively referred to as "Rental Operations revenues and expenses excluded from PNOI," as shown in the following table). Additionally, we do not allocate interest expense, depreciation expense and certain other non-property specific revenues and expenses (collectively referred to as "Non-Segment Items," as shown in the following table) to our individual operating segments.

We evaluate the performance of our Service Operations reportable segment using net income or loss, as allocated to that segment ("Earnings from Service Operations").

The most comparable GAAP measure to PNOI is income from continuing operations before income taxes. PNOI excludes expenses that materially impact our overall results of operations and, therefore, should not be considered as a substitute for income from continuing operations before income taxes or any other measures derived in accordance with GAAP. Furthermore, PNOI may not be comparable to other similarly titled measures of other companies. The following table shows a reconciliation of our segment-level measures of profitability to consolidated income from continuing operations before income taxes (in thousands and excluding discontinued operations):

	Three Months Ended March 31,	
	2019	2018
PNOI		
Industrial	\$148,901	\$128,143
Non-reportable Rental Operations	876	1,037
PNOI, excluding all sold properties	149,777	129,180
PNOI from sold properties included in continuing operations	(27)	6,735
PNOI, continuing operations	\$149,750	\$135,915
Earnings from Service Operations	2,378	692
Rental Operations revenues and expenses excluded from PNOI:		
Straight-line rental income and expense, net	5,704	6,288
Revenues related to lease buyouts	19	23
Amortization of lease concessions and above and below market rents	1,262	545
Intercompany rents and other adjusting items	45	15
Non-Segment Items:		
Equity in earnings of unconsolidated joint ventures	4,715	8,287
Interest expense	(22,132)	(20,000)
Depreciation and amortization expense	(75,992)	(77,529)
(Loss) gain on sale of properties	(163)	44,886
Interest and other income, net	2,758	4,463
General and administrative expenses	(21,983)	(21,023)
Gain on land sales	750	2,949
Other operating expenses	(2,123)	(786)
Loss on extinguishment of debt	(13)	—
Gain on involuntary conversion	2,259	—
Non-incremental costs related to successful leases	(2,156)	—
Other non-segment revenues and expenses, net	75	(872)

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Income from continuing operations before income taxes	\$45,153	\$83,853
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11. Real Estate Assets, Discontinued Operations and Assets Held-for-Sale*Real Estate Assets*

Real estate assets, excluding assets held-for-sale, consisted of the following (in thousands):

	March 31,	December 31,
	2019	2018
Buildings and tenant improvements	\$5,092,973	\$ 4,980,003
Land and improvements	2,335,435	2,268,343
Real estate assets	\$7,428,408	\$ 7,248,346

Discontinued Operations

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

	Held-for-Sale at March 31, 2019	Sold Year-to-Date in 2019	Sold in 2018	Total
Total properties included in discontinued operations	—	—	—	—
Properties excluded from discontinued operations	—	—	15	15
Total properties sold or classified as held-for-sale	—	—	15	15

The following table illustrates the operational results of the buildings reflected in discontinued operations (in thousands):

	Three Months Ended March 31,	
	2019	2018
Revenues	\$—	\$5
Operating expenses	—	(13)
Operating loss	—	(8)
Gain on sale of properties	155	132
Income from discontinued operations	\$155	\$124

The amounts classified in discontinued operations for the three months ended March 31, 2019 and 2018 were comprised of true-up activity related to properties sold in previous years that were classified as discontinued operations.

Allocation of Noncontrolling Interests - General Partner

The following table illustrates the General Partner's share of the income attributable to common shareholders from continuing operations and discontinued operations, reduced by the allocation of income between continuing and discontinued operations to the noncontrolling interests (in thousands):

	Three Months Ended March 31,	
	2019	2018
Income from continuing operations attributable to common shareholders	\$44,397	\$72,840
Income from discontinued operations attributable to common shareholders	154	123
Net income attributable to common shareholders	\$44,551	\$72,963

Allocation of Noncontrolling Interests - Partnership

Substantially all of the income from discontinued operations for all periods presented in the Partnership's Consolidated Statements of Operations and Comprehensive Income is attributable to the common unitholders.

Assets Held-for-Sale

The following table illustrates aggregate balance sheet information for assets held-for-sale (in thousands):

	Held-for-Sale Properties Included in Continuing Operations	
	March 31, 2019	December 31, 2018
Land and improvements	\$1,989	\$ —
Buildings and tenant improvements	855	—
Undeveloped land	—	1,966
Accumulated depreciation	(1,025)	(884)
Deferred leasing and other costs, net	42	—
Other assets	79	—
Total assets held-for-sale	\$1,940	\$ 1,082
Total liabilities related to assets held-for-sale	\$41	\$ —

12. Financial Instruments

We are exposed to capital market risk, such as changes in interest rates. In an effort to manage interest rate risk, we may enter into interest rate hedging arrangements from time to time. We do not utilize derivative financial instruments for trading or speculative purposes.

As of March 31, 2019 and December 31, 2018, the following forward-starting interest rate swaps designated as cash flow hedges (in thousands) were outstanding:

Notional Amount	Maturity Date	Asset (Liability) Fair Value	
		March 31, 2019	December 31, 2018
\$125,000	10/1/2019	\$(6,512)	\$(2,914)
\$75,000	10/1/2019	(3,922)	(1,762)
\$75,000	10/1/2019	(1,956)	—
\$50,000	10/1/2019	(1,311)	—
\$25,000	10/1/2019	(317)	—
		\$(14,018)	\$(4,676)

We have recorded the fair values of our interest rate swap contracts, which totaled \$14.0 million and \$4.7 million as of March 31, 2019 and December 31, 2018, respectively, as liabilities, included in Other Liabilities and Accumulated Other Comprehensive Loss on our Consolidated Balance Sheets.

13. Subsequent Events

Declaration of Dividends/Distributions

The General Partner's board of directors declared the following dividends/distributions at its regularly scheduled board meeting held on April 24, 2019:

Class of stock/units	Quarterly Amount per Share or Unit	Record Date	Payment Date
Common - Quarterly	\$0.215	May 16, 2019	May 31, 2019

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to help the reader understand our operations and our present business environment. Management's Discussion and Analysis is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the notes thereto contained in Part I, Item 1 of this Report, and the consolidated financial statements and notes thereto contained in Part IV, Item 15 of our 2018 Annual Report.

Cautionary Notice Regarding Forward-Looking Statements

Certain statements contained in or incorporated by reference into this Report, including, without limitation, those related to our future operations, constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words "believe," "estimate," "expect," "anticipate," "intend," "plan," "strategy," "continue," "seek," "may," "could" and similar expressions or statements regarding future periods are intended to identify forward-looking statements, although not all forward-looking statements may contain such words.

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

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

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

The above list of risks and uncertainties is only a summary of some of the most important factors and is not intended to be exhaustive. Additional information regarding risk factors that may affect us is included in our 2018 Annual Report. The risk factors contained in our Annual Report are updated by us from time to time in Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other filings that we make with the SEC.

Business Overview

The General Partner and Partnership collectively specialize in the ownership, management and development of industrial real estate.

The General Partner is a self-administered and self-managed REIT that began operations in 1986 and is the sole general partner of the Partnership. The Partnership is a limited partnership formed in 1993, at which time all of the properties and related assets and liabilities of the General Partner, as well as proceeds from a secondary offering of the General Partner's common shares, were contributed 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. We operate the General Partner and the Partnership as one enterprise, and therefore, our discussion and analysis refers to the General Partner and its consolidated subsidiaries, including the Partnership, collectively. A more complete description of our business, and of management's philosophy and priorities, is included in our 2018 Annual Report.

At March 31, 2019, we:

Owned or jointly controlled 529 primarily industrial properties, of which 509 properties with 146.9 million square feet were in service and 20 properties with 9.2 million square feet were under development. The 509 in-service properties were comprised of 469 consolidated properties with 135.7 million square feet and 40 unconsolidated joint venture properties with 11.3 million square feet. The 20 properties under development consisted of 17 consolidated properties with 7.6 million square feet and three unconsolidated joint venture properties with 1.6 million square feet.

Owned directly, or through ownership interests in unconsolidated joint ventures (with acreage not adjusted for our percentage ownership interest), approximately 1,700 acres of land and controlled approximately 1,000 acres through purchase options.

Our overall strategy is to continue to increase our investment in quality industrial properties primarily through development, on both a speculative and build-to-suit basis, supplemented with acquisitions in higher barrier markets with the highest growth potential.

Key Performance Indicators

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

Occupancy Analysis

Our ability to maintain high occupancy rates is a principal driver of maintaining and increasing rental revenue. The following table sets forth percent leased and average net effective rent information regarding our in-service portfolio of rental properties at March 31, 2019 and 2018, respectively:

Type	Total Square Feet (in thousands)		Percent of Total Square Feet		Percent Leased*		Average Annual Net Effective Rent**	
	2019	2018	2019	2018	2019	2018	2019	2018
Industrial	135,473	128,661	99.8 %	99.7 %	95.5 %	97.4 %	\$4.75	\$4.48
Non-reportable Rental Operations	211	399	0.2 %	0.3 %	77.3 %	58.9 %	\$24.75	\$19.81
Total Consolidated	135,684	129,060	100.0 %	100.0 %	95.5 %	97.3 %	\$4.78	\$4.51
Unconsolidated Joint Ventures	11,250	10,759			95.1 %	90.5 %	\$4.09	\$4.22
Total Including Unconsolidated Joint Ventures	146,934	139,819			95.5 %	96.7 %		

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

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

The lower leased percentage in our industrial portfolio at March 31, 2019, compared to March 31, 2018, resulted from new speculative developments being placed in service.

Vacancy Activity

The following table sets forth vacancy activity, shown in square feet, from our in-service rental properties for the three months ended March 31, 2019 (in thousands):

	Consolidated Properties	Unconsolidated Joint Venture Properties	Total Including Unconsolidated Joint Venture Properties
Vacant square feet at December 31, 2018	4,847	591	5,438
Acquisitions	162	—	162
Vacant space in completed developments	1,815	—	1,815
Expirations	774	—	774
Early lease terminations	171	—	171
Leasing of previously vacant space	(1,632)	(45)	(1,677)
Vacant square feet at March 31, 2019	6,137	546	6,683

Total Leasing Activity

The initial leasing of development projects or vacant space in acquired properties is referred to as first generation lease activity. Our ability to maintain and improve occupancy rates and net effective rents primarily depends upon our continuing ability to re-lease expiring space. The leasing of such space that we have previously held under lease to a tenant is referred to as second generation lease activity. Second generation lease activity may be in the form of renewals of existing leases or new second generation leases of previously leased space. The total leasing activity for our consolidated and unconsolidated rental properties, expressed in square feet of leases signed, is as follows (in thousands):

	Three Months Ended March 31,	
	2019	2018
New Leasing Activity - First Generation Industrial	957	2,520
New Leasing Activity - Second Generation Industrial	303	2,633
Renewal Leasing Activity - Industrial	1,503	1,477
Non-reportable Rental Operations Leasing Activity	1	—
Total Consolidated Leasing Activity	2,764	6,630
Unconsolidated Joint Venture Leasing Activity	73	320
Total Including Unconsolidated Joint Venture Leasing Activity	2,837	6,950

Second Generation Leases

The following table sets forth the estimated costs of tenant improvements and leasing commissions, on a per square foot basis, that we are obligated to fulfill under the second generation industrial leases signed for our rental properties during the three months ended March 31, 2019 and 2018:

	Square Feet of Leases (in thousands)		Percent of Expiring Leases Renewed		Average Term in Years		Estimated Tenant Improvement Cost per Square Foot		Leasing Commissions per Square Foot	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Three Months										
Consolidated - New Second Generation	303	2,633			7.3	7.2	\$6.90	\$1.66	\$4.25	\$1.92
Unconsolidated Joint Ventures - New Second Generation	46	128			5.2	10.8	\$0.00	\$2.35	\$1.34	\$3.61
Total - New Second Generation	349	2,761			7.0	7.3	\$6.00	\$1.69	\$3.87	\$2.00
Consolidated - Renewal	1,503	1,477	82.2	% 69.1%	3.8	4.6	\$0.97	\$1.09	\$1.09	\$1.39
Unconsolidated Joint Ventures - Renewal	28	62	100.0	% 49.1%	5.2	6.4	\$1.50	\$1.26	\$1.88	\$2.09
Total - Renewal	1,531	1,539	82.5	% 68.0%	3.8	4.6	\$0.98	\$1.10	\$1.10	\$1.41

Growth in average annual net effective rents for new second generation and renewal leases, on a combined basis, for our consolidated and unconsolidated rental properties, is as follows:

	Three Months Ended March 31,	
Ownership Type	2019	2018
Consolidated properties	23.6	25.6
Unconsolidated joint venture properties	12.2	25.9

Lease Expirations

The table below reflects our consolidated in-service portfolio lease expiration schedule at March 31, 2019 (in thousands, except percentage data and number of leases):

Year of Expiration	Total Consolidated Portfolio			Industrial		Non-reportable	
	Square Feet	Annual Rental Revenue*	Number of Leases	Square Feet	Annual Rental Revenue*	Square Feet	Annual Rental Revenue*
Remainder of 2019	5,518	\$ 24,544	63	5,513	\$ 24,483	5	\$ 61
2020	13,328	61,434	150	13,322	61,360	6	74
2021	13,885	62,777	150	13,885	62,777	—	—
2022	18,497	77,343	141	18,485	77,215	12	128
2023	12,913	63,534	133	12,897	63,313	16	221
2024	13,703	65,847	109	13,698	65,785	5	62
2025	10,079	46,336	61	10,079	46,336	—	—
2026	9,847	45,929	51	9,847	45,929	—	—
2027	6,331	27,770	19	6,331	27,770	—	—
2028	8,019	52,347	28	7,900	48,860	119	3,487
2029 and Thereafter	17,427	90,743	46	17,427	90,743	—	—
Total Leased	129,547	\$ 618,604	951	129,384	\$ 614,571	163	\$ 4,033
Total Portfolio Square Feet	135,684			135,473		211	
Percent Leased	95.5 %			95.5 %		77.3 %	

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

Building Acquisitions

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

We acquired two buildings during the three months ended March 31, 2019, and nine buildings during the year ended December 31, 2018. The following table summarizes the acquisition price, percent leased at time of acquisition and in-place yields, by product type, for these acquisitions (in thousands, except percentage data):

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Type	Year-to-Date 2019 Acquisitions			Full Year 2018 Acquisitions		
	Acquisition Price*	In-Place Yield**	Percent Leased at Acquisition Date***	Acquisition Price*	In-Place Yield**	Percent Leased at Acquisition Date***
Industrial	\$77,693	3.0 %	71.9 %	\$352,617	4.2 %	100.0 %

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

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

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

Building Dispositions

We regularly work to identify, consider and pursue opportunities to dispose of properties on an opportunistic basis and on a basis that is generally consistent with our strategic plans.

consolidated buildings during the three months ended March 31, 2019, and we sold 15 consolidated buildings during the year ended December 31, 2018. The following table summarizes the sales prices, in-place yields and percent leased, by product type, of these buildings (in thousands, except percentage data):

Type	Year-to-Date 2019 Dispositions			Full Year 2018 Dispositions		
	Sales Price*	In-Place Yield**	Percent Occupied**	Sales Price	In-Place Yield*	Percent Occupied**
Industrial	\$ —	— %	— %	\$384,137	5.8 %	97.3 %
Non-reportable Rental Operations	—	— %	— %	121,077	4.2 %	80.1 %
Total	\$ —	— %	— %	\$505,214	5.4 %	95.8 %

* In-place yields of completed dispositions are calculated as annualized net operating income from space leased to tenants at the date of sale on a lease-up basis, including full rent from all executed leases, even if currently in a free rent period, divided by the sales price. Annualized net operating income is comprised of base rental payments, excluding reimbursement of operating expenses, less current annualized operating expenses not recovered through tenant reimbursements.

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

Development

At March 31, 2019, we had 9.2 million square feet of property under development with total estimated costs upon completion of \$819.0 million compared to 9.6 million square feet with total estimated costs upon completion of \$834.9 million at March 31, 2018. The square footage and estimated costs include both consolidated properties and unconsolidated joint venture development activity at 100%.

The following table summarizes our properties under development at March 31, 2019 (in thousands, except percentage data):

Ownership Type	Square Feet	Percent Leased	Total Estimated Project Costs	Total Incurred to Date	Amount Remaining to be Spent
Consolidated properties	7,552	50 %	\$736,730	\$423,762	\$312,968
Unconsolidated joint venture properties	1,617	60 %	82,226	46,432	35,794

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Total 9,169 52 % \$ 818,956 \$ 470,194 \$ 348,762

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Results of Operations

A summary of our operating results and property statistics is as follows (in thousands, except number of properties and per share or Common Unit data):

	Three Months Ended March 31,	
	2019	2018
Rental and related revenue from continuing operations	\$209,965	\$193,456
General contractor and service fee revenue	54,964	41,101
Operating income	62,281	99,390
General Partner		
Net income attributable to common shareholders	\$44,551	\$72,963
Weighted average common shares outstanding	359,139	356,740
Weighted average common shares and potential dilutive securities	362,362	360,400
Partnership		
Net income attributable to common unitholders	\$44,933	\$73,646
Weighted average Common Units outstanding	362,204	360,095
Weighted average Common Units and potential dilutive securities	362,362	360,400
General Partner and Partnership		
Basic income per common share or Common Unit:		
Continuing operations	\$0.12	\$0.20
Diluted income per common share or Common Unit:		
Continuing operations	\$0.12	\$0.20
Number of in-service consolidated properties at end of period:	469	449
In-service consolidated square footage at end of period	135,684	129,060
Number of in-service unconsolidated joint venture properties at end of period	40	40
In-service unconsolidated joint venture square footage at end of period	11,250	10,759

Supplemental Performance Measures

In addition to net income computed in accordance with GAAP, we assess and measure the overall operating results of the General Partner and the Partnership using certain non-GAAP supplemental performance measures, which include (i) Funds From Operations ("FFO"), (ii) PNOI and (iii) Same-Property Net Operating Income - Cash Basis ("SPNOI").

These non-GAAP metrics are commonly used by industry analysts and investors as supplemental operating performance measures of REITs and are viewed by management to be useful indicators of operating performance. Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry analysts and investors have considered presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Management believes that the use of FFO, PNOI and SPNOI, combined with net income (which remains the primary measure of performance), improves the understanding of operating results of REITs among the investing public and makes comparisons of REIT operating results more meaningful.

The most comparable GAAP measure to FFO is net income (loss) attributable to common shareholders or common unitholders, while the most comparable GAAP measure to PNOI and SPNOI is income (loss) from continuing operations before income taxes.

FFO, PNOI and SPNOI each exclude expenses that materially impact our overall results of operations and, therefore, should not be considered as a substitute for net income (loss) attributable to common shareholders or common unitholders, income (loss) from continuing operations before income taxes, or any other measures derived in accordance with GAAP. Furthermore, these metrics may not be comparable to other similarly titled measures of other companies.

Funds From Operations

The National Association of Real Estate Investment Trusts ("NAREIT") created FFO as a non-GAAP supplemental measure of REIT operating performance. FFO, as defined by NAREIT, represents GAAP net income (loss), excluding gains or losses from sales of real estate assets (including real estate assets incidental to our business) and related taxes, gains and losses from change in control, impairment charges related to real estate assets (including real estate assets incidental to our business) plus certain non-cash items such as real estate asset depreciation and amortization, and after similar adjustments for unconsolidated partnerships and joint ventures. We calculate FFO in accordance with the definition that was adopted by the Board of Governors of NAREIT.

Management believes that the use of FFO as a performance measure enables investors and analysts to readily identify the operating results of the long-term assets that form the core of a REIT's activity and assists them in comparing these operating results between periods or between different companies that use the NAREIT definition of FFO.

The following table shows a reconciliation of net income attributable to common shareholders or common unitholders to the calculation of FFO attributable to common shareholders or common unitholders (in thousands):

	Three Months Ended March 31,	
	2019	2018
Net income attributable to common shareholders of the General Partner	\$44,551	\$72,963
Add back: Net income attributable to noncontrolling interests - common limited partnership interests in the Partnership	382	683
Net income attributable to common unitholders of the Partnership	44,933	73,646
Adjustments:		
Depreciation and amortization	75,992	77,529
Company share of unconsolidated joint venture depreciation, amortization and other adjustments	2,353	2,161
Gain on sale of properties	8	(45,018)
Gain on land sales	(750)	(2,949)
Income tax expense triggered by sales of real estate assets	385	10,329
Gains on sales of real estate assets - share of unconsolidated joint ventures	(2,499)	(6,217)
FFO attributable to common unitholders of the Partnership	\$120,422	\$109,481
Additional General Partner Adjustments:		
Net income attributable to noncontrolling interests - common limited partnership interests in the Partnership	(382)	(683)
Noncontrolling interest share of adjustments	(639)	(333)
FFO attributable to common shareholders of the General Partner	\$119,401	\$108,465

Property-Level Net Operating Income - Cash Basis

PNOI is comprised of rental revenues from continuing operations less rental expenses and real estate taxes from continuing operations, along with certain other adjusting items. As a performance metric that consists of only the cash-based revenues and expenses directly related to ongoing real estate rental operations, PNOI is narrower in scope than NAREIT FFO.

PNOI, as we calculate it, may not be directly comparable to similarly titled, but differently calculated, measures for other REITs. We believe that PNOI is another useful supplemental performance measure, as it is an input in many REIT valuation models and it provides a means by which to evaluate the performance of the properties within our Rental Operations segments. The operations of our industrial properties, as well as our non-reportable Rental Operations (our residual non-industrial properties that have not yet been sold, referred to throughout as "Non-Reportable"), are collectively referred to as "Rental Operations."

The major factors influencing PNOI are occupancy levels, acquisitions and sales, development properties that achieve stabilized operations, rental rate increases or decreases, and the recoverability of operating expenses.

Note 10 to the consolidated financial statements included in Part I, Item 1 of this Report shows a calculation of our PNOI for the three months ended March 31, 2019 and 2018 and provides a reconciliation of PNOI for our Rental Operations segments to income from continuing operations before income taxes.

Same Property Net Operating Income - Cash Basis

We also evaluate the performance of our properties, including our share of properties we jointly control, on a "same property" basis, using a metric referred to as SPNOI. We view SPNOI as a useful supplemental performance measure because it improves comparability between periods by eliminating the effects of changes in the composition of our portfolio.

On an individual property basis, SPNOI is generally computed in a consistent manner as PNOI.

Effective January 1, 2018, we define our "same property" population once a year at the beginning of the current calendar year and include buildings that were stabilized (the term "stabilized" means properties that have reached 90% leased or that have been in-service for at least one year since development completion or acquisition) as of January 1 of the prior calendar year. The "same property" pool is also adjusted to remove properties that were sold subsequent to the beginning of the current calendar year. As such, the "same property" population for the period ended March 31, 2019 includes all properties that we owned or jointly controlled at January 1, 2019, which had both been owned or jointly controlled and had reached stabilization by January 1, 2018, and have not been sold.

A reconciliation of income from continuing operations before income taxes to SPNOI is presented as follows (in thousands, except percentage data):

	Three Months Ended		Percent
	March 31,		
	2019	2018	Change
Income from continuing operations before income taxes	\$45,153	\$83,853	
Share of SPNOI from unconsolidated joint ventures	4,159	4,006	
PNOI excluded from the "same property" population	(19,615)	(7,910)	
Earnings from Service Operations	(2,378)	(692)	
Rental Operations revenues and expenses excluded from PNOI	(7,003)	(13,606)	
Non-Segment Items	114,005	59,625	
SPNOI	\$134,321	\$125,276	7.2 %

The composition of the line items titled "Rental Operations revenues and expenses excluded from PNOI" and "Non-Segment Items" from the table above are shown in greater detail in Note 10 to the consolidated financial statements included in Part I, Item 1 of this Report.

We believe that the factors that impact SPNOI are generally the same as those that impact PNOI. The following table details the number of properties, square feet, average occupancy and cash rental rates for the properties included in SPNOI for the respective periods:

	Three Months Ended March 31,	
	2019	2018
Number of properties	450	450
Square feet (in thousands) (1)	120,890	120,890
Average commencement occupancy percentage (2)	98.6%	97.8%
Average rental rate - cash basis (3)	\$4.48	\$4.34

(1) Includes the total square feet of the consolidated properties that are in the "same property" population as well as 4.5 million square feet of space for unconsolidated joint ventures, which represents our ratable share of the 9.1 million total square feet of space for buildings owned by unconsolidated joint ventures that are in the "same property" population.

(2) Commencement occupancy represents the percentage of total square feet where the leases have commenced.

(3) Represents the average annualized contractual rent per square foot for tenants in occupancy in properties in the "same property" population. Cash rent does not include the tenant's obligation to pay property operating expenses and real estate taxes. If a tenant was within a free rent period, its rent would equal zero for purposes of this metric.

Comparison of Three Months Ended March 31, 2019 to Three Months Ended March 31, 2018

Rental and Related Revenue

The following table sets forth rental and related revenue from continuing and discontinued operations (in thousands):

	Three Months Ended March 31,	
	2019	2018
Rental and related revenue:		
Industrial	\$208,403	\$189,315
Non-reportable Rental Operations and non-segment revenues	1,562	4,141
Total rental and related revenue from continuing operations	\$209,965	\$193,456
Rental and related revenue from discontinued operations	—	5
Total rental and related revenue from continuing and discontinued operations	\$209,965	\$193,461

The primary reasons for the increase in rental and related revenue from continuing operations were:

We acquired 11 properties and placed 23 developments in service from January 1, 2018 to March 31, 2019, which provided incremental revenues from continuing operations of \$16.1 million during the three months ended March 31, 2019, as compared to the same period in 2018.

Increases in occupancy and rental rates within our "same property" portfolio, as well as within properties that were placed in service prior to January 1, 2018 but were not in the "same property" portfolio, also contributed to the increase to rental and related revenue from continuing operations.

The sale of 15 in-service properties since January 1, 2018, which did not meet the criteria to be classified within discontinued operations, resulted in a decrease of \$7.2 million to rental and related revenue from continuing operations in the three months ended March 31, 2019, as compared to the same period in 2018, which partially offset the aforementioned increases to rental and related revenue from continuing operations.

Rental Expenses and Real Estate Taxes

The following table sets forth rental expenses and real estate taxes from continuing and discontinued operations (in thousands):

	Three Months Ended March 31,	
	2019	2018
Rental expenses:		
Industrial	\$20,221	\$18,694
Non-reportable Rental Operations and non-segment expenses	447	1,219
Total rental expenses from continuing operations	\$20,668	\$19,913
Rental expenses from discontinued operations	—	(4)
Total rental expenses from continuing and discontinued operations	\$20,668	\$19,909
Real estate taxes:		
Industrial	\$32,308	\$30,418
Non-reportable Rental Operations and non-segment expenses	134	728
Total real estate tax expense from continuing operations	\$32,442	\$31,146
Real estate tax expense from discontinued operations	—	17
Total real estate tax expense from continuing and discontinued operations	\$32,442	\$31,163

Rental expenses from continuing operations increased by \$755,000 during the three months ended March 31, 2019, compared to the same period in 2018. The increase to rental expenses was primarily the result of acquisitions and developments placed in service from January 1, 2018 to March 31, 2019, partially offset by the impact of property sales that did not meet the criteria to be classified within discontinued operations.

Real estate tax expense from continuing operations increased by \$1.3 million during the three months ended March 31, 2019, compared to the same period in 2018. The increase to real estate tax expense was mainly the result of acquisitions and developments placed in service from January 1, 2018 to March 31, 2019, partially offset by the impact of property sales that did not meet the criteria to be classified within discontinued operations.

Depreciation and Amortization

Depreciation and amortization expense from continuing operations decreased from \$77.5 million for the three months ended March 31, 2018 to \$76.0 million for the same period in 2019. The change was mainly the result of the timing of acquisitions and dispositions.

Equity in Earnings of Unconsolidated Joint Ventures

Equity in earnings of unconsolidated joint ventures represents our ownership share of net income from investments in unconsolidated joint ventures that generally own and operate rental properties. Equity in earnings of unconsolidated joint ventures decreased from \$8.3 million for the three months ended March 31, 2018 to \$4.7 million for the same period in 2019. During the three months ended March 31, 2019, we recognized \$2.5 million of equity in earnings of unconsolidated joint ventures related to our share of the gain on sale of one joint venture building. During the three months ended March 31, 2018, we recognized \$6.2 million of equity in earnings of unconsolidated joint ventures related to our share of the gain on sale of four joint venture buildings.

Non-Incremental Costs Related to Successful Leases

As the result of adoption of the new lease standard on January 1, 2019 (see Note 2), \$2.2 million of non-incremental costs related to successful leases were expensed for the three months ended March 31, 2019. As we have adopted the standard on a prospective basis, there was no adjustment to non-incremental costs previously capitalized for the three months ended March 31, 2018.

General and Administrative Expenses

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

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

General and administrative expenses increased from \$21.0 million for the three months ended March 31, 2018 to \$22.0 million for the same period in 2019. The following table sets forth the factors that led to the increased general and administrative expenses (in millions):

General and administrative expenses - three-month period ended March 31, 2018	\$21.0
Decrease to overall pool of overhead costs	(3.9)
Decreased absorption of costs by wholly owned leasing and development activities (1)	5.1
Increased allocation of costs to Service Operations and Rental Operations	(0.2)
General and administrative expenses - three-month period ended March 31, 2019	\$22.0

(1) We capitalized \$669,000 and \$5.0 million of our total overhead costs to leasing and development, respectively, for consolidated properties during the three months ended March 31, 2019, compared to capitalizing \$8.2 million and \$4.7 million of such costs, respectively, for the three months ended March 31, 2018. Combined overhead costs capitalized to leasing and development totaled 14.6% and 30.4% of our overall pool of overhead costs for the three months ended March 31, 2019 and 2018, respectively. The decrease in overhead costs capitalized to leasing was primarily due to lower leasing activity as well as \$2.2 million of previously capitalizable internal costs that were immediately expensed due to the adoption of ASC 842 (see Note 2) and presented separately on the Consolidated Statements of Operations.

Interest Expense

Interest expense allocable to continuing operations increased from \$20.0 million for the three months ended March 31, 2018 to \$22.1 million for the three months ended March 31, 2019. The increase to interest expense from continuing operations was primarily due to increased borrowings on our unsecured line of credit.

We capitalized \$6.7 million and \$8.1 million of interest costs for the three months ended March 31, 2019 and 2018, respectively.

Discontinued Operations

The property-specific components of earnings that are classified as discontinued operations include rental revenues, rental expenses, real estate taxes, allocated interest expense and depreciation expense, as well as the net gain or loss on the disposition of the properties.

We had no buildings classified as discontinued operations for both the three months ended March 31, 2019 and 2018. The amounts classified in discontinued operations for the three months ended March 31, 2019 and 2018 were comprised of true-up activity related to properties sold in previous years that were classified as discontinued operations.

Liquidity and Capital Resources

Sources of Liquidity

We expect to meet our short-term liquidity requirements over the next 12 months including payments of dividends and distributions and the capital expenditures needed to maintain our current real estate assets, primarily through working capital, net cash provided by operating activities and proceeds received from real estate dispositions. We had \$240.0 million of outstanding borrowings on the Partnership's \$1.20 billion unsecured line of credit and \$15.3 million of cash on hand at March 31, 2019.

In addition to our existing sources of liquidity, we expect to meet long-term liquidity requirements, such as scheduled mortgage and unsecured debt maturities, property acquisitions, financing of development activities and other capital improvements, through multiple sources of capital including operating cash flow, proceeds from property dispositions and accessing the public debt and equity markets. At March 31, 2019, we also held \$220.0 million of notes receivable from the various entities that purchased our medical office properties in 2017, as part of the Medical Office Portfolio Disposition, which are scheduled to mature at various points through January 2020.

Rental Operations

Cash flows from Rental Operations is our primary source of liquidity and provides a stable source of cash flow to fund operational expenses. We believe that this cash-based revenue stream is substantially aligned with revenue recognition (except for items such as periodic straight-line rental income accruals and amortization of above or below market rents) as cash receipts from the leasing of rental properties are generally received in advance of, or a short time following, the actual revenue recognition.

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

Unsecured Debt and Equity Securities

We use the Partnership's unsecured line of credit (which is guaranteed by the General Partner) as a temporary source of capital to fund development activities, acquire additional rental properties and provide working capital.

The Partnership has issued debt securities pursuant to certain indentures and related supplemental indentures, which also require us to comply with financial ratios and other covenants regarding our operations. We were in compliance with all such covenants, as well as applicable covenants under our unsecured line of credit, at March 31, 2019.

In 2017, the Alternative Reference Rates Committee ("ARRC") proposed that the Secured Overnight Funding Rate ("SOFR") replace LIBOR. Also ARRC proposed that the transition to SOFR from LIBOR take place by the end of 2021. As the Partnership's unsecured line of credit agreement has provisions that allow for automatic transition to a new rate and the Partnership has no other material debt arrangements that are indexed to LIBOR, we believe that the transition will not have a material impact on our consolidated financial statements.

At March 31, 2019, we had on file with the SEC an automatic shelf registration statement on Form S-3 relating to the offer and sale, from time to time, of an indeterminate amount of debt and equity securities (including guarantees of the Partnership's debt securities by the General Partner). Equity securities are offered and sold by the General Partner, and the net proceeds of such offerings are contributed to the Partnership in exchange for additional General Partner Units or Preferred Units. From time to time, we expect to issue additional securities under this automatic shelf registration statement to fund the repayment of long-term debt upon maturity and for other general corporate purposes.

The General Partner has an ATM equity program that allows it to issue new common shares from time to time, with an aggregate offering price of up to \$200.0 million. During the three months ended March 31, 2019, the General Partner did not issue any common shares pursuant to its ATM equity program. As of March 31, 2019, the ATM equity program still had \$79.1 million worth of new common shares available to issue.

Sale of Real Estate Assets

We regularly work to identify, consider and pursue opportunities to dispose of non-strategic properties on an opportunistic basis and on a basis that is generally consistent with our strategic plans. Our ability to dispose of such properties on favorable terms, or at all, is dependent upon a number of factors including the availability of credit to potential buyers to purchase properties at prices that we consider acceptable. Although we believe that we have demonstrated our ability to generate significant liquidity through the disposition of non-strategic properties, potential future adverse changes to general market and economic conditions could negatively impact our further ability to dispose of such properties.

Sales of land and depreciable properties provided \$1.9 million in net proceeds during the three months ended March 31, 2019.

Transactions with Unconsolidated Joint Ventures

Transactions with unconsolidated joint ventures also provide a source of liquidity. From time to time we will sell properties to unconsolidated joint ventures, while retaining a continuing interest in that entity, and receive proceeds commensurate to those interests that we do not own. Additionally, unconsolidated joint ventures will from time to time obtain debt financing or sell properties and will then distribute to us, and our joint venture partners, all or a portion of the proceeds from such transactions. During the three months ended March 31, 2019, we had no capital distributions from unconsolidated joint ventures. During the three months ended March 31, 2018, our share of sale and capital distributions from unconsolidated joint ventures totaled \$9.4 million.

Uses of Liquidity

Our principal uses of liquidity include the following:

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

Property Investment

Our overall strategy is to continue to increase our investment in quality industrial properties, primarily through development, on both a speculative and build-to-suit basis, supplemented with acquisitions in higher barrier markets with the highest growth potential. Pursuant to this strategy, we evaluate development and acquisition opportunities based upon our market outlook, including general economic conditions, supply and long-term growth potential. Our ability to make future property investments is dependent upon identifying suitable acquisition and development opportunities, and our continued access to our longer-term sources of liquidity, including issuances of debt or equity securities as well as generating cash flow by disposing of selected properties.

Leasing/Capital Costs

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

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

Tenant improvements and leasing costs to renew or re-let rental space that we previously leased to tenants for new second generation leases are referred to as second generation expenditures. Building improvements that are not specific to any tenant but serve to improve integral components of our real estate properties are also second generation expenditures. One of the principal uses of our liquidity is to fund the second generation leasing/capital expenditures of our real estate investments.

The following table summarizes our second generation capital expenditures by type of expenditure, as well as capital expenditures for the development of real estate investments and for other deferred leasing costs (in thousands):

	Three Months Ended March 31,	
	2019	2018
Second generation tenant improvements	\$4,510	\$3,602
Second generation leasing costs	5,136	10,278
Building improvements	599	222
Total second generation capital expenditures	\$10,245	\$14,102
Development of real estate investments	\$85,772	\$104,346
Other deferred leasing costs	\$1,712	\$9,798

The capital expenditures in the table above include the capitalization of internal overhead costs. We capitalized \$669,000 and \$8.2 million of overhead costs related to leasing activities, including both first and second generation leases, during the three months ended March 31, 2019 and 2018, respectively. We capitalized \$5.0 million and \$4.7 million of overhead costs related to development activities, including both development and tenant improvement projects on first and second generation space, during the three months ended March 31, 2019 and 2018, respectively. Combined overhead costs capitalized to leasing and development totaled 14.6% and 30.4% of our overall pool of overhead costs for the three months ended March 31, 2019 and 2018, respectively. The decrease in the overhead costs capitalized to leasing was primarily due to lower leasing activity and the expense impact of internal costs related to successful leasing which was not capitalizable as a result of the adoption of the new lease standard on January 1, 2019 (see Note 2) and was included in Non-Incremental Costs Related to Successful Leases on the Consolidated Statement of Operations and Comprehensive Income for the three months ended March 31, 2019.

Further discussion of the capitalization of overhead costs can be found herein, in the quarter-to-quarter comparisons of general and administrative expenses of this Item 2 as well as in the Critical Accounting Policies section of Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2018 Annual Report.

In addition to the capitalization of overhead costs, the totals for development of real estate assets in the table above include the capitalization of \$6.7 million and \$8.1 million of interest costs during the three months ended March 31, 2019 and 2018, respectively.

Both our first and second generation expenditures vary significantly between leases on a per square foot basis, dependent upon several factors including the product type, the nature of a tenant's operations, the specific physical characteristics of each individual property and the market in which the property is located.

Dividend and Distribution Requirements

The General Partner is required to meet the distribution requirements of the Code in order to maintain its REIT status. We paid regular dividends or distributions of \$0.215 per common share or Common Unit in the first quarter of 2019, and the General Partner's board of directors declared dividends or distributions of \$0.215 per common share or Common Unit for the second quarter of 2019.

We expect to continue to distribute at least an amount equal to our taxable earnings, to meet the requirements to maintain the General Partner's REIT status, and additional amounts as determined by the General Partner's board of directors. Distributions are declared at the discretion of the General Partner's board of directors and are subject to actual cash available for distribution, our financial condition, capital requirements and such other factors as the General Partner's board of directors deems relevant.

Debt Maturities

Debt outstanding at March 31, 2019 had a face value totaling \$2.85 billion with a weighted average interest rate of 3.90% and maturities at various dates through 2028. Of this total amount, we had \$2.58 billion of unsecured debt, \$37.0 million of secured debt and \$240.0 million of outstanding borrowings on our unsecured line of credit at March 31, 2019. Scheduled principal amortization, maturities and early repayments of such debt totaled \$42.7 million for the three months ended March 31, 2019.

The following table is a summary of the scheduled future amortization and maturities of our indebtedness at March 31, 2019 (in thousands, except percentage data):

Year	Future Repayments			Weighted Average Interest Rate of Future Repayments	
	Scheduled Amortization	Maturities	Total		
Remainder of 2019	\$2,850	\$—	\$2,850	5.51	%
2020	3,883	—	3,883	5.64	%
2021	3,416	259,047	262,463	3.99	%
2022	3,611	600,000	603,611	4.20	%
2023	3,817	490,000	493,817	3.57	%
2024	4,036	300,000	304,036	3.92	%
2025	3,938	—	3,938	5.59	%
2026	2,029	375,000	377,029	3.37	%
2027	358	300,000	300,358	3.40	%
2028	—	500,000	500,000	4.45	%
Thereafter	—	—	—	N/A	
	\$27,938	\$2,824,047	\$2,851,985	3.90	%

The Partnership's unsecured line of credit is reflected in the table above as maturing in January 2023, based on the ability to exercise the two six-month extension options from its stated maturity date of January 2022 (see Note 7). We anticipate generating capital to fund our debt maturities by using undistributed cash generated from our Rental Operations and property dispositions and by raising additional capital from future debt or equity transactions.

Repayments of Outstanding Debt

To the extent that it supports our overall capital strategy, we may purchase or redeem some of our outstanding unsecured notes prior to their stated maturities.

During the three months ended March 31, 2019, we repaid three fixed rate secured loans, totaling \$41.7 million, which had a weighted average stated interest rate of 7.76%.

Contractual Obligations

Aside from repayments of long-term debt, there have been no other material changes in our outstanding commitments since December 31, 2018, as previously discussed in our 2018 Annual Report.

Historical Cash Flows

Cash, cash equivalents and restricted cash were \$22.2 million and \$228.4 million at March 31, 2019 and 2018, respectively. The following table highlights significant changes in net cash associated with our operating, investing and financing activities (in millions):

	Three Months Ended March 31,	
	2019	2018
<u>General Partner</u>		
Net cash provided by operating activities	\$114.6	\$113.2
Net cash used for investing activities	\$(206.3)	\$(38.3)
Net cash provided by (used for) financing activities	\$88.4	\$(40.1)
<u>Partnership</u>		
Net cash provided by operating activities	\$114.6	\$113.2
Net cash used for investing activities	\$(206.3)	\$(38.3)
Net cash provided by (used for) financing activities	\$88.4	\$(40.1)

Operating Activities

Cash flows from operating activities provide the cash necessary to meet normal operational requirements of our Rental Operations and Service Operations activities. The receipt of rental income from Rental Operations continues to be our primary source of operating cash flows.

Investing Activities

Highlights of significant cash sources and uses are as follows:

During the three months ended March 31, 2019, we paid cash of \$76.1 million and \$53.6 million, respectively, for real estate and undeveloped land acquisitions, compared to \$22.8 million and \$67.3 million, respectively, for real estate and undeveloped land acquisitions in the same period in 2018.

Real estate development costs were \$85.8 million during the three months ended March 31, 2019, compared to \$104.3 million for the same period in 2018.

Sales of land and depreciated properties provided \$1.9 million in net proceeds for the three months ended March 31, 2019, compared to \$131.4 million for the same period in 2018.

During the three months ended March 31, 2019, we received repayments of \$35.0 million on notes receivable from property sales, compared to \$39.9 million on notes receivable from property sales for the same period in 2018.

Second generation tenant improvements, leasing costs and building improvements totaled \$10.2 million for the three months ended March 31, 2019 compared to \$14.1 million for the same period in 2018.

For the three months ended March 31, 2019, we received no capital distributions from unconsolidated joint ventures, compared to \$9.4 million received during the same period in 2018, primarily related to our share of distributions from the sale of properties owned by unconsolidated joint ventures.

For the three months ended March 31, 2019, we made capital contributions of \$6.5 million to unconsolidated joint ventures. There were no capital contributions made during the same period in 2018.

Financing Activities

The following items highlight significant capital transactions:

During the three months ended March 31, 2019, the Partnership repaid three secured loans for \$41.7 million. The Partnership repaid one secured loan for \$215,000 during the same period in 2018.

For the three months ended March 31, 2019 and 2018, we increased borrowings on the Partnership's unsecured line of credit by \$210.0 million and \$75.0 million, respectively.

We paid regular cash dividends totaling \$77.2 million and \$71.4 million for the three months ended March 31, 2019 and 2018, respectively.

Changes in book cash overdrafts are classified as financing activities within our Consolidated Statements of Cash Flows. Book cash overdrafts were \$24.0 million and \$2.9 million at March 31, 2019 and 2018, respectively.

During the three months ended March 31, 2019 we paid off a special assessment bond for \$9.9 million which was reflected within Other Financing Activities on our Consolidated Statements of Cash Flows. We did not make similar significant repayments during the three months ended March 31, 2018.

Off Balance Sheet Arrangements - Investments in Unconsolidated Joint Ventures

We analyze our investments in unconsolidated joint ventures to determine if they meet the criteria for classification as a VIE and would require consolidation. We (i) evaluate the sufficiency of the total equity at risk, (ii) review the voting rights and decision-making authority of the equity investment holders as a group and whether there are limited partners (or similar owning entities) that lack substantive participating or kick out rights and (iii) establish whether or not activities within the venture are on behalf of an investor with disproportionately few voting rights in making this VIE determination. To the extent that we (i) are the sole entity that has the power to direct the activities of the VIE and (ii) have the obligation or rights to absorb the VIE's losses or receive its benefits, then we would be determined to be the primary beneficiary of the VIE and would consolidate it. At the end of each reporting period, we re-assess our conclusions as to which, if any, party within the VIE is considered the primary beneficiary. To the extent that our joint ventures do not qualify as VIEs, we further assess each joint venture partner's substantive participating rights to determine if the venture should be consolidated. There were no unconsolidated joint ventures that met the criteria to be a VIE at March 31, 2019.

We have equity interests in unconsolidated partnerships and limited liability companies that primarily own and operate rental properties and hold land for development. These unconsolidated joint ventures are primarily engaged in the operation and development of industrial real estate properties. These investments provide us with increased market share and tenant and property diversification. The equity method of accounting is used for these investments in which we have the ability to exercise significant influence, but not control, over operating and financial policies. As a result, the assets and liabilities of these entities are not included on our balance sheet. Our investments in and advances to unconsolidated joint ventures represented approximately 1% of our total assets at March 31, 2019 and December 31, 2018. Total assets of our unconsolidated joint ventures were \$501.3 million and \$489.5 million at March 31, 2019 and December 31, 2018, respectively. The combined revenues of our unconsolidated joint ventures totaled \$15.1 million for both the three months ended March 31, 2019 and 2018.

We have guaranteed the repayment of certain secured and unsecured loans of our unconsolidated joint ventures. The outstanding balances on the guaranteed portion of these loans totaled \$124.1 million and \$102.9 million at March 31, 2019 and 2018, respectively.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to interest rate changes primarily as a result of our line of credit and our long-term borrowings. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve our objectives, we borrow primarily at fixed rates and may enter into derivative financial instruments such as interest rate swaps, from time to time, in order to mitigate our interest rate risk. We do not enter into derivative or interest rate transactions for speculative purposes.

Our interest rate risk is monitored using a variety of techniques. The table below provides information about our financial instruments that are sensitive to changes in interest rates, including long-term debt and interest rate swaps. For long-term debt, the table presents the principal amounts (in thousands) of the expected annual maturities, weighted average interest rates for the average debt outstanding in the specified period and fair values (in thousands). For interest rate swaps, the table presents notional amount (in thousands), weighted average interest rates by expected maturity date and fair value (in thousands).

	Remainder of 2019	2020	2021	2022	2023	Thereafter	Face Value	Fair Value
Long-Term Debt:								
Fixed rate secured debt	\$2,550	\$3,583	\$12,163	\$3,311	\$3,517	\$9,661	\$34,785	\$37,193
Weighted average interest rate	5.98	% 5.98	% 5.73	% 6.06	% 6.06	% 6.07	% 5.93	%
Variable rate secured debt	\$300	\$300	\$300	\$300	\$300	\$700	\$2,200	\$2,200
Weighted average interest rate	1.57	% 1.57	% 1.57	% 1.57	% 1.57	% 1.57	% 1.57	%
Fixed rate unsecured debt	\$—	\$—	\$250,000	\$600,000	\$250,000	\$1,475,000	\$2,575,000	\$2,630,163
Weighted average interest rate	N/A	N/A	3.91	% 4.20	% 3.72	% 3.84	% 3.92	%
Variable rate unsecured line of credit*	\$—	\$—	\$—	\$—	\$240,000	\$—	\$240,000	\$240,000
Rate at March 31, 2019	N/A	N/A	N/A	N/A	3.38	% N/A	3.38	%
Interest Rate Swaps:								
Fixed to variable	\$350,000	\$—	\$—	\$—	\$—	\$—	\$350,000	\$14,018

*The Partnership's unsecured line of credit is reflected in the table above as maturing in January 2023, based on the ability to exercise the two six-month extension options from its stated maturity date of January 2022 (see Note 7). As the above table incorporates only those exposures that existed at March 31, 2019, it does not consider those exposures or positions that could arise after that date. As a result, the ultimate impact of interest rate fluctuations will depend on future exposures that arise and our hedging strategies at that time, to the extent we are party to interest rate derivatives, and interest rates. Interest expense on our unsecured line of credit, to the extent we have outstanding borrowings, will be affected by fluctuations in the LIBOR indices or applicable replacement rates as well as changes in our credit rating. The interest rate at such point in the future as we may renew, extend or replace our unsecured line of credit will be heavily dependent upon the state of the credit environment. As of March 31, 2019, we held an aggregate \$350.0 million notional amount of five forward-starting interest rate swaps with a weighted average pay rate of 2.87% to hedge interest rates on an anticipated debt offering in late 2019. The fair value of these swaps was \$14.0 million in a liability position at March 31, 2019.

Item 4. Controls and Procedures

Controls and Procedures (General Partner)

(a) Evaluation of Disclosure Controls and Procedures

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

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

(b) Changes in Internal Control over Financial Reporting

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

Controls and Procedures (Partnership)

(a) Evaluation of Disclosure Controls and Procedures

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

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

(b) Changes in Internal Control over Financial Reporting

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

Part II - Other Information

Item 1. Legal Proceedings

From time to time, we are parties to a variety of legal proceedings and claims arising in the ordinary course of our businesses. While these matters generally are covered by insurance, there is no assurance that our insurance will cover any particular proceeding or claim. We are not subject to any material pending legal proceedings other than routine litigation arising in the ordinary course of business. We presently believe that all of the proceedings to which we were subject as of March 31, 2019, taken as a whole, will not have a material adverse effect on our liquidity, business, financial condition or results of operations.

Item 1A. Risk Factors

In addition to the information set forth in this Report, you also should carefully review and consider the information contained in our other reports and periodic filings that we make with the SEC, including, without limitation the information contained under the caption "Item 1A. Risk Factors" in our 2018 Annual Report. The risks and uncertainties described in our 2018 Annual Report are not the only risks that we face. Additional risks and uncertainties not currently known to us, or that we presently deem to be immaterial, also may materially adversely affect our business, financial condition and results of operations. There have not been any material changes to the risk factors that we face since our 2018 Annual Report.

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

(a) Unregistered Sales of Equity Securities

None

(b) Use of Proceeds

None

(c) Issuer Purchases of Equity Securities

From time to time, we repurchase our securities under a repurchase program that initially was approved by the General Partner's board of directors and publicly announced in October 2001 (the "Repurchase Program"). On January 30, 2019, the General Partner's board of directors adopted a resolution that amended and restated the Repurchase Program and delegated authority to management to repurchase a maximum of \$300.0 million of the General Partner's common shares, \$500.0 million of the Partnership's debt securities and \$500.0 million of the General Partner's preferred shares, subject to the prior notification of the Chairman of the Finance Committee of the board of directors of planned repurchases within these limits. We did not repurchase any equity securities through the Repurchase Program during the three months ended March 31, 2019.

Item 3. Defaults upon Senior Securities

During the period covered by this Report, we did not default under the terms of any of our material indebtedness.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

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

Item 6. Exhibits

(a) Exhibits

- 3.1 Sixth Amended and Restated Articles of Incorporation of the General Partner (filed as Exhibit 3.1 to the combined Current Report on Form 8-K of the General Partner and the Partnership as filed with the SEC on January 5, 2015, and incorporated herein by this reference).
- 3.2 Fifth Amended and Restated Bylaws of the General Partner (filed as Exhibit 3.1 to the General Partner's Current Report on Form 8-K as filed with the SEC on October 26, 2017, and incorporated herein by this reference).
- 3.3 Certificate of Limited Partnership of the Partnership, dated September 17, 1993 (filed as Exhibit 3.1(i) to the Partnership's Annual Report on Form 10-K for the year ended December 31, 2006 as filed with the SEC on March 13, 2007, and incorporated herein by this reference) (File No. 000-20625).
- 3.4 (i) Fifth Amended and Restated Agreement of Limited Partnership of the Partnership (filed as Exhibit 3.2 to the combined Current Report on Form 8-K of the General Partner and the Partnership as filed with the SEC on May 5, 2014, and incorporated herein by this reference).
- 3.4 (ii) First Amendment to Fifth Amended and Restated Agreement of Limited Partnership of the Partnership (filed as Exhibit 3.2 to the combined Current Report on Form 8-K of the General Partner and the Partnership as filed with the SEC on August 6, 2014, and incorporated herein by this reference).
- 3.4 (iii) Second Amendment to Fifth Amended and Restated Agreement of Limited Partnership of the Partnership (filed as Exhibit 3.2 to the combined Current Report on Form 8-K of the General Partner and the Partnership as filed with the SEC on December 16, 2014, and incorporated herein by this reference).
- 3.4 (iv) Third Amendment to Fifth Amended and Restated Agreement of Limited Partnership of the Partnership (filed as Exhibit 3.2 to the combined Current Report on Form 8-K of the General Partner and the Partnership as filed with the SEC on January 5, 2015, and incorporated herein by this reference).
- 3.4 (v) Fourth Amendment to Fifth Amended and Restated Agreement of Limited Partnership of the Partnership (filed as Exhibit 3.1 to the combined Current Report on Form 8-K of the General Partner and the Partnership as filed with the SEC on January 29, 2015, and incorporated herein by this reference).
- 3.4 (vi) Fifth Amendment to Fifth Amended and Restated Agreement of Limited Partnership of the Partnership (filed as Exhibit 3.1 to the combined Current Report on Form 8-K of the General Partner and the Partnership as filed with the SEC on October 25, 2018, and incorporated herein by this reference).
- 10.1 Form of Restricted Stock Unit Award Certificate for directors under the General Partner's 2015 Long-Term Incentive Plan.#*
- 10.2 Form of Amended and Restricted Severance Agreement between the Company and its executive officers (filed as Exhibit 10.1 to the combined Current Report on Form 8-K of the General Partner and the Partnership as filed with the SEC on January 31, 2019, and incorporated herein by this reference).#
- 11.1 Statement Regarding Computation of Earnings.***
- 31.1 Rule 13a-14(a) Certification of the Chief Executive Officer of the General Partner.*

- 31.2 Rule 13a-14(a) Certification of the Chief Financial Officer of the General Partner.*
- 31.3 Rule 13a-14(a) Certification of the Chief Executive Officer for the Partnership.*
- 31.4 Rule 13a-14(a) Certification of the Chief Financial Officer for the Partnership.*
- 32.1 Section 1350 Certification of the Chief Executive Officer of the General Partner.**
- 32.2 Section 1350 Certification of the Chief Financial Officer of the General Partner.**
- 32.3 Section 1350 Certification of the Chief Executive Officer for the Partnership.**
- 32.4 Section 1350 Certification of the Chief Financial Officer for the Partnership.**

101.Def Definition Linkbase Document

101.Pre Presentation Linkbase Document

101.Lab Labels Linkbase Document

101.Cal Calculation Linkbase Document

101.Sch Schema Document

101.Ins Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document

#Represents management contract or compensatory plan or arrangement

*Filed herewith.

The certifications attached as Exhibits 32.1, 32.2, 32.3 and 32.4 accompany this Quarterly Report on Form 10-Q and are "furnished" to the Securities and Exchange Commission pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed "filed" by the General Partner or the Partnership, respectively, for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

***Data required by Financial Accounting Standards Board Auditing Standards Codification No. 260 is provided in Note 9 to the Consolidated Financial Statements included in this Report.

SIGNATURES

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

DUKE REALTY CORPORATION

/s/ James B. Connor
James B. Connor
Chairman and Chief Executive Officer

/s/ Mark A. Denien
Mark A. Denien
Executive Vice President and Chief Financial Officer

DUKE REALTY LIMITED PARTNERSHIP
By: DUKE REALTY CORPORATION, its general partner

/s/ James B. Connor
James B. Connor
Chairman and Chief Executive Officer of the General Partner

/s/ Mark A. Denien
Mark A. Denien
Executive Vice President and Chief Financial Officer of the General Partner

Date: April 26, 2019