

DUKE REALTY CORP

Form 10-Q

November 04, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

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

(Exact Name of Registrant as Specified in Its Charter)

Indiana
(State or Other Jurisdiction
of Incorporation or Organization)

35-1740409
(I.R.S. Employer
Identification Number)

600 East 96th Street, Suite 100
Indianapolis, Indiana
(Address of Principal Executive Offices)

46240
(Zip Code)

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

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

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

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

Class	Outstanding at November 4, 2011
Common Stock, \$.01 par value per share	252,921,718

DUKE REALTY CORPORATION
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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)

	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Real estate investments:		
Land and improvements	\$1,307,608	\$1,166,409
Buildings and tenant improvements	5,601,866	5,396,339
Construction in progress	41,490	61,205
Investments in and advances to unconsolidated companies	368,671	367,445
Undeveloped land	622,254	625,353
	7,941,889	7,616,751
Accumulated depreciation	(1,413,804)	(1,290,417)
Net real estate investments	6,528,085	6,326,334
Real estate investments and other assets held-for-sale	21,992	394,287
Cash and cash equivalents	16,182	18,384
Accounts receivable, net of allowance of \$2,854 and \$2,945	21,685	22,588
Straight-line rent receivable, net of allowance of \$7,502 and \$7,260	140,732	125,185
Receivables on construction contracts, including retentions	44,425	7,408
Deferred financing costs, net of accumulated amortization of \$56,105 and \$46,407	39,449	46,320
Deferred leasing and other costs, net of accumulated amortization of \$329,325 and \$269,000	497,594	517,934
Escrow deposits and other assets	194,517	185,836
	\$7,504,661	\$7,644,276
LIABILITIES AND EQUITY		
Indebtedness:		
Secured debt	\$1,184,268	\$1,065,628
Unsecured notes	2,783,762	2,948,405
Unsecured lines of credit	304,293	193,046
	4,272,323	4,207,079
Liabilities related to real estate investments held-for-sale	957	14,732
Construction payables and amounts due subcontractors, including retentions	66,786	44,782
Accrued real estate taxes	123,524	83,615
Accrued interest	35,725	62,407
Other accrued expenses	42,729	61,448
Other liabilities	128,123	129,860
Tenant security deposits and prepaid rents	59,551	50,450
Total liabilities	4,729,718	4,654,373
Shareholders' equity:		
Preferred shares (\$.01 par value); 5,000 shares authorized; 3,176 and 3,618 shares issued and outstanding	793,910	904,540
	2,529	2,522

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Common shares (\$.01 par value); 400,000 shares authorized; 252,918 and 252,195 shares issued and outstanding

Additional paid-in capital	3,591,381	3,573,720
Accumulated other comprehensive income (loss)	493	(1,432)
Distributions in excess of net income	(1,678,484)	(1,533,740)
Total shareholders' equity	2,709,829	2,945,610
Noncontrolling interests	65,114	44,293
Total equity	2,774,943	2,989,903
	\$7,504,661	\$7,644,276

See accompanying Notes to Consolidated Financial Statements

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DUKE REALTY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

For the three and nine months ended September 30,

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	2011	2010	2011	2010
Revenues:				
Rental and related revenue	\$233,555	\$228,299	\$698,619	\$642,489
General contractor and service fee revenue	127,708	132,351	409,617	414,391
	361,263	360,650	1,108,236	1,056,880
Expenses:				
Rental expenses	49,947	47,628	153,002	143,133
Real estate taxes	33,785	32,659	101,936	88,394
General contractor and other services expenses	120,547	124,653	379,180	392,433
Depreciation and amortization	96,909	94,487	290,751	253,209
	301,188	299,427	924,869	877,169
Other operating activities:				
Equity in earnings of unconsolidated companies	3,104	580	5,890	7,525
Gain on sale of properties	(1,437)	) (125)	) 66,910	) 6,917
Undeveloped land carrying costs	(2,259)	) (2,359)	) (7,021)	) (7,152)
Impairment charges	—	) (1,860)	) —	) (9,834)
Other operating expenses	(60)	) (580)	) (171)	) (1,002)
General and administrative expenses	(9,493)	) (8,476)	) (29,231)	) (31,171)
	(10,145)	) (12,820)	) 36,377	) (34,717)
Operating income	49,930	48,403	219,744	144,994
Other income (expenses):				
Interest and other income, net	172	149	543	504
Interest expense	(66,875)	) (61,491)	) (199,269)	) (175,076)
Loss on debt transactions	—	) (167)	) —	) (16,294)
Acquisition-related activity	(342)	) 57,513	(1,525)	) 57,513
Income (loss) from continuing operations before income taxes	(17,115)	) 44,407	19,493	11,641
Income tax benefit	194	1,126	194	1,126
Income (loss) from continuing operations	(16,921)	) 45,533	19,687	12,767
Discontinued operations:				
Income (loss) before gain on sales	(36)	) 375	(30)	) 2,293
Gain on sale of depreciable properties	2,088	11,527	16,405	24,383
Income from discontinued operations	2,052	11,902	16,375	26,676
Net income (loss)	(14,869)	) 57,435	36,062	39,443
Dividends on preferred shares	(14,399)	) (16,726)	) (46,347)	) (53,452)
Adjustments for redemption/repurchase of preferred shares	(3,633)	) (5,652)	) (3,796)	) (10,144)
Net (income) loss attributable to noncontrolling interests	825	(993)	) 532	562
Net income (loss) attributable to common shareholders	\$(32,076)	) \$34,064	) \$(13,549)	) \$(23,591)
Basic net income (loss) per common share:				
Continuing operations attributable to common shareholders	\$(0.14)	) \$0.08	) \$(0.13)	) \$(0.22)
Discontinued operations attributable to common shareholders	0.01	0.05	0.07	0.11
Total	\$(0.13)) \$0.13) \$(0.06)) \$(0.11)

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Diluted net income (loss) per common share:							
Continuing operations attributable to common shareholders	\$ (0.14)	\$ 0.08	\$ (0.13)	\$ (0.22)
Discontinued operations attributable to common shareholders	0.01		0.05	0.07		0.11	
Total	\$ (0.13	)	\$ 0.13	\$ (0.06	)	\$ (0.11)
Weighted average number of common shares outstanding	252,802		251,866	252,618		234,468	
Weighted average number of common shares and potential dilutive securities	252,802		257,383	252,618		234,468	
See accompanying Notes to Consolidated Financial Statements							

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DUKE REALTY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the nine months ended September 30,

(in thousands)

(Unaudited)

	2011	2010
Cash flows from operating activities:		
Net income	\$36,062	\$39,443
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of buildings and tenant improvements	204,134	201,352
Amortization of deferred leasing and other costs	88,295	62,734
Amortization of deferred financing costs	11,070	10,492
Straight-line rent adjustment	(19,012)	(12,252)
Impairment charges	—	9,834
Loss on debt extinguishment	—	16,294
Gain on acquisitions, net	—	(57,815)
Earnings from land and depreciated property sales	(83,315)	(31,300)
Third-party construction contracts, net	(18,417)	(16,872)
Other accrued revenues and expenses, net	14,586	13,293
Operating distributions received in excess of equity in earnings from unconsolidated companies	11,681	7,649
Net cash provided by operating activities	245,084	242,852
Cash flows from investing activities:		
Development of real estate investments	(125,676)	(82,372)
Acquisition of real estate investments and related intangible assets, net of cash acquired	(179,047)	(260,877)
Acquisition of undeveloped land	(3,825)	(13,384)
Second generation tenant improvements, leasing costs and building improvements	(71,732)	(63,361)
Other deferred leasing costs	(20,950)	(26,060)
Other assets	(4,500)	(16,847)
Proceeds from land and depreciated property sales, net	504,688	200,445
Capital distributions from unconsolidated companies	54,730	3,897
Capital contributions and advances to unconsolidated companies, net	(28,362)	(48,410)
Net cash provided by (used for) investing activities	125,326	(306,969)
Cash flows from financing activities:		
Proceeds from issuance of common shares, net	—	297,896
Payments for redemption/repurchase of preferred shares	(110,726)	(115,849)
Proceeds from unsecured debt issuance	—	250,000
Payments on and repurchases of unsecured debt	(166,346)	(392,181)
Proceeds from secured debt financings	—	3,987
Payments on secured indebtedness including principal amortization	(24,841)	(8,814)
Borrowings on lines of credit, net	111,247	82,210
Distributions to common shareholders	(128,817)	(119,116)
Distributions to preferred shareholders	(46,347)	(53,452)
Distributions to noncontrolling interests	(3,952)	(4,844)
Deferred financing costs	(2,830)	(2,193)
Net cash used for financing activities	(372,612)	(62,356)
Net decrease in cash and cash equivalents	(2,202)	(126,473)
Cash and cash equivalents at beginning of period	18,384	147,322
Cash and cash equivalents at end of period	\$16,182	\$20,849
Non-cash investing and financing activities:		
Assumption of indebtedness and other liabilities in real estate acquisitions	\$150,042	\$332,982

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Contribution of properties to unconsolidated companies	\$53,245	\$7,002
Investment and advances related to acquisition of previously unconsolidated companies	\$5,987	\$134,026
Conversion of Limited Partner Units to common shares	\$3,052	\$(7,829)
Issuance of Limited Partner Units for acquisition	\$28,357	\$—
See accompanying Notes to Consolidated Financial Statements		

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DUKE REALTY CORPORATION AND SUBSIDIARIES

Consolidated Statement of Changes in Equity

For the nine months ended September 30, 2011

(in thousands, except per share data)

(Unaudited)

	Common Shareholders			Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Net Income	Non- Controlling Interests	Total
	Preferred Stock	Common Stock	Additional Paid-in Capital				
Balance at December 31, 2010	\$904,540	\$2,522	\$3,573,720	\$(1,432)	\$(1,533,740)	\$44,293	\$2,989,903
Comprehensive income:							
Net income	—	—	—	—	36,594	(532)	36,062
Derivative instrument activity	—	—	—	1,925	—	—	1,925
Comprehensive income							37,987
Issuance of Limited Partner Units for acquisition	—	—	—	—	—	28,357	28,357
Stock based compensation plan activity	—	4	10,912	—	(2,378)	—	8,538
Conversion of Limited Partner Units	—	3	3,049	—	—	(3,052)	—
Distributions to preferred shareholders	—	—	—	—	(46,347)	—	(46,347)
Redemption/repurchase of preferred shares	(110,630)	—	3,700	—	(3,796)	—	(110,726)
Distributions to common shareholders (\$0.51 per share)	—	—	—	—	(128,817)	—	(128,817)
Distributions to noncontrolling interests	—	—	—	—	—	(3,952)	(3,952)
Balance at September 30, 2011	\$793,910	\$2,529	\$3,591,381	\$493	\$(1,678,484)	\$65,114	\$2,774,943

See accompanying Notes to Consolidated Financial Statements

DUKE REALTY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General Basis of Presentation

The interim consolidated financial statements included herein have been prepared by Duke Realty Corporation (the “Company”). The 2010 year-end consolidated balance sheet data included in this Quarterly Report on Form 10-Q (this “Report”) was derived from the audited financial statements in our Annual Report on Form 10-K for the year ended December 31, 2010, but does not include all disclosures required by accounting principles generally accepted in the United States of America (“GAAP”). The financial statements have been prepared in accordance with GAAP for interim financial information and in accordance with Rule 10-01 of Regulation S-X of the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenue and expenses during the reporting period. Our actual results could differ from those estimates and assumptions. These financial statements should be read in conjunction with Management’s Discussion and Analysis of Financial Condition and Results of Operations included herein and the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010.

We believe that we qualify as a real estate investment trust (“REIT”) under the provisions of the Internal Revenue Code of 1986, as amended (the “Code”). Substantially all of our Rental Operations (see Note 9) are conducted through Duke Realty Limited Partnership (“DRLP”). We owned approximately 97.3% of the common partnership interests of DRLP (“Units”) at September 30, 2011. At the option of the holders, and subject to certain restrictions, the remaining Units are redeemable for shares of our common stock on a one-to-one basis and earn dividends at the same rate as shares of our common stock. If it is determined to be necessary in order to continue to qualify as a REIT, we may elect to purchase the Units for an equivalent amount of cash rather than issuing shares of common stock upon redemption. We conduct our Service Operations (see Note 9) through Duke Realty Services, LLC, Duke Realty Services Limited Partnership and Duke Construction Limited Partnership (“DCLP”). 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. In this Report, unless the context indicates otherwise, the terms “we,” “us” and “our” refer to the Company and those entities owned or controlled by the Company.

2. Reclassifications

Certain amounts in the accompanying consolidated financial statements for 2010 have been reclassified to conform to the 2011 consolidated financial statement presentation.

3. Variable Interest Entities

At September 30, 2011, there are three unconsolidated joint ventures that we have determined meet the criteria to be considered variable interest entities (“VIEs”). These three unconsolidated joint ventures were formed with the sole purpose of developing, constructing, leasing, marketing and selling or operating properties. The business activities of these unconsolidated joint ventures have been financed through a combination of equity contributions, partner/member loans, and third-party debt that is guaranteed by both us and the other partner/member of each entity. All significant decisions for these unconsolidated joint ventures, including those decisions that most significantly impact each venture’s economic performance, require unanimous approval of each joint venture’s partners or members. In certain cases, these decisions also require lender approval. Unanimous approval requirements for these unconsolidated joint ventures include entering into new leases, setting annual operating budgets, selling underlying properties, and incurring additional indebtedness. Because no single entity exercises control over the decisions that most significantly affect each joint venture’s economic performance, we determined that the equity method of accounting is appropriate.

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The following is a summary of the carrying value in our consolidated balance sheet, as well as our maximum loss exposure under guarantees for the three unconsolidated subsidiaries that we have determined to be VIEs as of September 30, 2011 (in millions):

	Carrying Value	Maximum Loss Exposure
Investment in Unconsolidated Company	\$33.2	\$33.2
Guarantee Obligations (1)	\$(18.9)\$(58.3

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We are party to guarantees of the third-party debt of these joint ventures and our maximum loss exposure is equal to the maximum monetary obligation pursuant to the guarantee agreements. In 2009, we recorded a liability for our probable future obligation under a guarantee to the lender of one of these ventures. Pursuant to an agreement with (1) the lender, we may make partner loans to this joint venture that will reduce our maximum guarantee obligation on a dollar-for-dollar basis. The carrying value of our recorded guarantee obligations is included in other liabilities in our Consolidated Balance Sheets.

4. Acquisitions and Dispositions

Acquisition of Premier Portfolio

We purchased twelve industrial and four office buildings, as well as other real estate assets, during the nine months ended September 30, 2011. These purchases completed our acquisition of a portfolio of buildings in South Florida (the "Premier Portfolio"), which was placed under contract in 2010, and resulted in cash payments to the sellers of \$27.4 million, the assumption of secured loans with a face value of \$124.4 million and the issuance to the sellers of 2.1 million Units with a fair value at issuance of \$28.4 million (Note 6). These units are not convertible until early 2012. On December 30, 2010, we purchased 38 industrial buildings, one office building and other real estate assets within the Premier Portfolio. The allocation of the fair value of the amounts recognized from this acquisition to buildings and other related assets was preliminary at December 31, 2010. The following table summarizes our allocation of the fair value of amounts recognized for each major class of assets and liabilities related to the 55 properties and other real estate assets from the Premier Portfolio that have been purchased through September 30, 2011 (in thousands):

	Acquired During Year ended December 31, 2010	Acquired During Nine months ended September 30, 2011	Total
Real estate assets	\$249,960	\$153,656	\$403,616
Lease-related intangible assets	31,091	25,445	56,536
Other assets	1,801	2,571	4,372
Total acquired assets	282,852	181,672	464,524
Secured debt	158,238	125,003	283,241
Other liabilities	4,075	4,284	8,359
Total assumed liabilities	162,313	129,287	291,600
Fair value of acquired net assets	\$120,539	\$52,385	\$172,924

The leases in the acquired properties had a weighted average remaining life at acquisition of approximately 3.5 years.

Other 2011 Acquisitions

We also acquired 14 additional properties during the nine months ended September 30, 2011. These acquisitions consisted of five bulk industrial properties in Raleigh, North Carolina, two bulk industrial properties in Chicago, Illinois, one bulk industrial property in Dallas, Texas, one bulk industrial property in Southern California, one bulk industrial property in Phoenix, Arizona, one bulk industrial property in Savannah, Georgia, one office property in Raleigh, North Carolina, one office property in Indianapolis, Indiana and one office property in Atlanta, Georgia. Our acquisition accounting is preliminary for seven of the acquired buildings, which were acquired in September 2011. The following table summarizes our allocation of the fair value of amounts recognized for each major class of assets and liabilities (in thousands) for these acquisitions:

Real estate assets	\$161,825
Lease related intangible assets	22,879
Other assets	338
Total acquired assets	185,042
Secured debt	20,138
Other liabilities	1,588

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Total assumed liabilities	21,726
Fair value of acquired net assets	\$163,316

The leases in the acquired properties had a weighted average remaining life at acquisition of approximately 6.8 years.

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Fair Value Measurements

The fair value estimates used in allocating the aggregate purchase price of each acquisition among the individual components of real estate assets and liabilities were determined primarily through calculating the “as-if vacant” value of each building, using the income approach, and relied significantly upon internally determined assumptions. As a result, we have, thus, determined these estimates to have been primarily based upon Level 3 inputs, which are unobservable inputs based on our own assumptions. The range of most significant assumptions utilized in making the lease-up and future disposition estimates used in calculating the “as-if vacant” value of each building acquired during the nine months ended September 30, 2011 were as follows:

	Low	High	
Discount rate	6.40	% 10.10	%
Exit capitalization rate	4.80	% 9.00	%
Lease-up period (months)	12	36	
Net rental rate per square foot – Industrial	\$2.75	\$6.50	
Net rental rate per square foot – Office	\$8.61	\$16.00	

Dispositions

We disposed of income-producing real estate assets and undeveloped land and received net proceeds of \$504.7 million during the nine months ended September 30, 2011. Included in the building dispositions in the nine months ended September 30, 2011 is the sale, in March 2011, of 13 suburban office buildings, totaling approximately 2.0 million square feet, to an existing 20% owned unconsolidated joint venture. These buildings were sold to the unconsolidated joint venture for \$342.8 million and our share of net proceeds totaled \$273.7 million.

5. Indebtedness

The following table summarizes the book value and changes in the fair value of our debt for the nine months ended September 30, 2011 (in thousands):

	Book Value at 12/31/10	Book Value at 9/30/11	Fair Value at 12/31/10	Issuances and Assumptions	Payoffs	Adjustments to Fair Value	Fair Value at 9/30/11
Fixed rate secured debt	\$1,042,722	\$1,162,147	\$1,069,562	\$143,732	\$(24,056)	\$75,065	\$1,264,303
Variable rate secured debt	22,906	22,121	22,906	—	(785)	—	22,121
Unsecured notes	2,948,405	2,783,762	3,164,651	—	(166,345)	(63,773)	2,934,533
Unsecured lines of credit	193,046	304,293	193,224	111,248	—	4,815	309,287
Total	\$4,207,079	\$4,272,323	\$4,450,343	\$254,980	\$(191,186)	\$16,107	\$4,530,244

Fixed Rate Secured Debt

Because our fixed rate secured debt is not actively traded in any marketplace, we utilized a discounted cash flow methodology to determine its fair value. Accordingly, we calculated fair value by applying an estimate of the current market rate to discount the debt’s remaining contractual cash flows. Our estimate of a current market rate, which is the most significant input in the discounted cash flow calculation, is intended to replicate debt of similar maturity and loan-to-value relationship. The estimated rates ranged from 2.70% to 6.20%, 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.

We assumed eleven secured loans, in conjunction with our acquisition activity, in the first nine months of 2011. These acquired secured loans had a total face value of \$143.7 million and fair value of \$145.1 million. The assumed loans

carry a weighted average stated interest rate of 5.75% and a weighted remaining term upon acquisition of 5.2 years. We used estimated market rates ranging between 4.40% and 5.81% in determining the fair value of the loans.

Unsecured Notes

In March 2011, we repaid \$42.5 million of senior unsecured notes, which had an effective interest rate of 6.96%, at their scheduled maturity date. In August 2011, we repaid \$122.5 million of senior unsecured notes, which had an effective interest

rate of 5.69%, at their scheduled maturity date.

All but \$21.0 million of our unsecured notes bear interest at fixed rates. 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, as defined. The estimated trading values of our fixed rate unsecured debt, depending on the maturity and coupon rates, ranged from 100.00% to 115.00% of face value.

The indentures (and related supplemental indentures) governing our outstanding series of notes also require us to comply with financial ratios and other covenants regarding our operations. We were in compliance with all such covenants as of September 30, 2011.

Unsecured Lines of Credit

Our unsecured lines of credit as of September 30, 2011 are described as follows (in thousands):

Description	Maximum Capacity	Maturity Date	Outstanding Balance at September 30, 2011
Unsecured Line of Credit - DRLP	\$850,000	February 2013	\$284,000
Unsecured Line of Credit - Consolidated Subsidiary	\$30,000	July 2012	\$20,293

The DRLP unsecured line of credit has an interest rate on borrowings of LIBOR plus 2.75% (equal to 2.98% for borrowings as of September 30, 2011), and a maturity date of February 2013. Subject to certain conditions, the terms also include an option to increase the facility by up to an additional \$200.0 million, for a total of up to \$1.05 billion.

This line of credit provides us with an option to obtain borrowings from financial institutions that participate in the line at rates that may be lower than the stated interest rate, subject to certain restrictions.

This line of credit contains financial covenants that require us to meet certain financial ratios and defined levels of performance, including those related to fixed charge coverage and debt-to-asset value (with asset value being defined in the DRLP unsecured line of credit agreement). As of September 30, 2011, we were in compliance with all covenants under this line of credit.

The consolidated subsidiary's unsecured line of credit allows for borrowings up to \$30.0 million at a rate of LIBOR plus 0.85% (equal to 1.09% for outstanding borrowings as of September 30, 2011). This unsecured line of credit is used to fund development activities within the consolidated subsidiary and matures in July 2012.

To the extent that there are outstanding borrowings, we utilize a discounted cash flow methodology in order to estimate the fair value of our unsecured lines of credit. The net present value of the difference between future contractual interest payments and future interest payments based on our estimate of a current market rate represents the difference between the book value and the fair value. Our estimate of a current market rate is based upon the rate, considering current market conditions and our specific credit profile, at which we estimate we could obtain similar borrowings. The current market rate of 1.74% that we utilized was internally estimated; therefore, we have concluded that our determination of fair value for our unsecured lines of credit was primarily based upon Level 3 inputs.

6. Shareholders' Equity

In the first nine months of 2011, we repurchased 80,000 shares of our 8.375% Series O Cumulative Redeemable Preferred Shares ("Series O Shares"). The Series O Shares that we repurchased had a total redemption value of \$2.0 million and were repurchased for \$2.1 million. An adjustment of approximately \$163,000, which included a ratable portion of original issuance costs, was included as a reduction to net income attributable to common shareholders. In conjunction with the acquisition of the Premier Portfolio (Note 4), we issued 2.1 million Units with a fair value at issuance

of \$28.4 million, which are included in noncontrolling interests.

In July 2011, we redeemed all of the outstanding shares of our 7.25% Series N Cumulative Redeemable Preferred Shares at a liquidation amount of \$108.6 million. Offering costs of \$3.6 million were charged against net income attributable to common shareholders in conjunction with the redemption of these shares.

7. Related Party Transactions

We provide property management, asset management, leasing, construction and other tenant related services to unconsolidated companies in which we have equity interests. We recorded the corresponding fees based on contractual terms that approximate market rates for these types of services and we have eliminated our ownership percentage of these fees in the consolidated financial statements. The following table summarizes the fees earned from these companies for the nine months ended September 30, 2011 and 2010, respectively (in thousands):

	Nine Months Ended September 30,	
	2011	2010
Management fees	\$7,393	\$5,850
Leasing fees	3,627	2,143
Construction and development fees	4,182	6,716

8. Net Income (Loss) Per Common Share

Basic net income (loss) per common share is computed by dividing net income (loss) attributable to common shareholders, less dividends on share-based awards expected to vest (referred to as “participating securities” and primarily composed of unvested restricted stock units), by the weighted average number of common shares outstanding for the period. Diluted net income (loss) per common share is computed by dividing the sum of basic net income (loss) attributable to common shareholders and the noncontrolling interest in earnings allocable to Units not owned by us (to the extent the Units are dilutive) by the sum of the weighted average number of common shares outstanding and, to the extent they are dilutive, Units outstanding, as well as any potential dilutive securities for the period.

The following table reconciles the components of basic and diluted net income (loss) per common share for the three and nine months ended September 30, 2011 and 2010, respectively (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Net income (loss) attributable to common shareholders	\$(32,076)	\$34,064	\$(13,549)	\$(23,591)
Less: Dividends on participating securities	(811)	(694)	(2,416)	(1,699)
Basic net income (loss) attributable to common shareholders	(32,887)	33,370	(15,965)	(25,290)
Noncontrolling interest in earnings of common unitholders	—	1,041	—	—
Diluted net income (loss) attributable to common shareholders	\$(32,887)	\$34,411	\$(15,965)	\$(25,290)
Weighted average number of common shares outstanding	252,802	251,866	252,618	234,468
Weighted average partnership Units outstanding	—	5,517	—	—
Other potential dilutive shares	—	—	—	—
Weighted average number of common shares and potential dilutive securities	252,802	257,383	252,618	234,468

The partnership Units are anti-dilutive for the three and nine months ended September 30, 2011 and the nine months ended September 30, 2010 as a result of the net loss for these periods. In addition, potential shares related to our stock-based compensation plans as well as our 3.75% Exchangeable Senior Notes (“Exchangeable Notes”) are anti-dilutive for all periods presented. The following table summarizes the data that is excluded from the computation of net income (loss) per common share as a result of being anti-dilutive (in thousands):

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Noncontrolling interest in earnings of common unitholders	\$ (868	) \$ —	\$ (369	) \$ (620
Weighted average partnership Units outstanding	7,064	—	6,887	6,172
Other potential dilutive shares:				
Anti-dilutive outstanding potential shares under fixed stock option plans	1,677	1,779	1,677	1,779
Anti-dilutive potential shares under the Exchangeable Notes	3,432	4,045	3,432	4,045
Outstanding participating securities	4,840	4,137	4,840	4,137

9. Segment Reporting

We have three reportable operating segments, the first two of which consist of the ownership and rental of (i) office and (ii) industrial real estate investments. The operations of our office and industrial properties, along with our medical office and retail properties, are collectively referred to as “Rental Operations.” Our medical office and retail properties do not by themselves meet the quantitative thresholds for separate presentation as reportable segments. The third reportable segment consists of various real estate services such as property management, asset management, maintenance, leasing, development and construction management to third-party property owners and joint ventures, and is collectively referred to as “Service Operations.” Our reportable segments offer different products or services and are managed separately because each segment requires different operating strategies and management expertise. Other revenue consists of other operating revenues not identified with one of our operating segments. Interest expense and other non-property specific revenues and expenses are not allocated to individual segments in determining our performance measure.

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

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

Management believes that the use of FFO attributable to common shareholders, combined with net income (which remains the primary measure of performance), improves the understanding of operating results of REITs among the investing public and makes comparisons of REIT operating results more meaningful. Management believes that excluding gains or losses related to sales of previously depreciated real estate assets and excluding real estate asset depreciation and amortization 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 assist them in comparing these operating results between periods or between different companies.

The following table shows (i) the revenues for each of the reportable segments and (ii) a reconciliation of FFO attributable to common shareholders to net income (loss) attributable to common shareholders for the three and nine months ended September 30, 2011 and 2010, respectively (in thousands):

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues				
Rental Operations:				
Office	\$111,376	\$124,397	\$340,483	\$371,206
Industrial	98,874	84,249	290,219	212,832
Non-reportable Rental Operations segments	20,334	16,495	59,698	49,453
General contractor and service fee revenue ("Service Operations")	27,708	132,351	409,617	414,391
Total Segment Revenues	358,292	357,492	1,100,017	1,047,882
Other Revenue	2,971	3,158	8,219	8,998
Consolidated Revenue from continuing operations	361,263	360,650	1,108,236	1,056,880
Discontinued Operations	1,341	11,385	7,506	38,276
Consolidated Revenue	\$362,604	\$372,035	\$1,115,742	\$1,095,156
Reconciliation of Funds From Operations				
Net earnings excluding depreciation and Non-Segment Items				
Office	\$62,768	\$72,015	\$191,787	\$213,409
Industrial	72,006	62,716	208,925	158,395
Non-reportable Rental Operations segments	13,115	10,729	38,513	32,884
Service Operations	7,161	7,698	30,437	21,958
	155,050	153,158	469,662	426,646
Non-Segment Items:				
Interest expense	(66,875)	(61,491)	(199,269)	(175,076)
Impairment charges	—	(1,860)	—	(9,834)
Interest and other income	172	149	543	504
Other operating expenses	(60)	(580)	(171)	(1,002)
General and administrative expenses	(9,493)	(8,476)	(29,231)	(31,171)
Undeveloped land carrying costs	(2,259)	(2,359)	(7,021)	(7,152)
Loss on debt transactions	—	(167)	—	(16,294)
Acquisition-related activity	(342)	57,513	(1,525)	57,513
Income tax benefit	194	1,126	194	1,126
Other non-segment income	1,934	2,552	4,456	6,274
Net (income) loss attributable to noncontrolling interests	825	(993)	532	562
Noncontrolling interest share of FFO adjustments	(2,835)	(2,018)	(6,206)	(6,611)
Joint venture items	11,635	7,916	30,597	32,488
Dividends on preferred shares	(14,399)	(16,726)	(46,347)	(53,452)
Adjustments for redemption/repurchase of preferred shares	(3,633)	(5,652)	(3,796)	(10,144)
Discontinued operations	390	3,801	1,648	13,170
FFO attributable to common shareholders	70,304	125,893	214,066	227,547
Depreciation and amortization on continuing operations	(96,909)	(94,487)	(290,751)	(253,209)
Depreciation and amortization on discontinued operations	(426)	(3,426)	(1,678)	(10,877)
Company's share of joint venture adjustments	(8,531)	(7,336)	(24,798)	(27,271)
Earnings from depreciated property sales on continuing operations	(1,437)	(125)	66,910	6,917
Earnings from depreciated property sales on discontinued operations	2,088	11,527	16,405	24,383
Earnings from depreciated property sales—share of joint venture	—	—	91	2,308
Noncontrolling interest share of FFO adjustments	2,835	2,018	6,206	6,611
Net income (loss) attributable to common shareholders	\$(32,076)	\$34,064	\$(13,549)	\$(23,591)

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The assets for each of the reportable segments as of September 30, 2011 and December 31, 2010 are as follows (in thousands):

	September 30, 2011	December 31, 2010
Assets		
Rental Operations:		
Office	\$2,759,739	\$3,122,565
Industrial	3,388,125	3,210,566
Non-reportable Rental Operations segments	640,885	627,491
Service Operations	175,839	231,662
Total Segment Assets	6,964,588	7,192,284
Non-Segment Assets	540,073	451,992
Consolidated Assets	\$7,504,661	\$7,644,276

10. Discontinued Operations and Assets Held for Sale

The following table illustrates the number of properties in discontinued operations:

	Held for Sale at September 30, 2011	Sold in 2011	Sold in 2010	Total
Office	3	11	11	25
Industrial	0	3	6	9
Retail	0	0	2	2
	3	14	19	36

We allocate interest expense to discontinued operations and have included such interest expense in computing income from discontinued operations. Interest expense allocable to discontinued operations includes interest on any secured debt for properties included in discontinued operations and an allocable share of our consolidated unsecured interest expense for unencumbered properties. The allocation of unsecured interest expense to discontinued operations was based upon the gross book value of the unencumbered real estate assets included in discontinued operations as it related to the total gross book value of our unencumbered real estate assets.

The following table illustrates the operations of the buildings reflected in discontinued operations for the three and nine months ended September 30, 2011 and 2010, respectively (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues	\$1,341	\$11,385	\$7,506	\$38,276
Operating expenses	(640)	(4,675)	(3,751)	(15,226)
Depreciation and amortization	(426)	(3,426)	(1,678)	(10,877)
Operating income	275	3,284	2,077	12,173
Interest expense	(311)	(2,909)	(2,107)	(9,880)
Income (loss) before gain on sales	(36)	375	(30)	2,293
Gain on sale of depreciable properties	2,088	11,527	16,405	24,383
Income from discontinued operations	\$2,052	\$11,902	\$16,375	\$26,676

Dividends on preferred shares and adjustments for the redemption or repurchase of preferred shares are allocated entirely to continuing operations. The following table illustrates the allocation of the income (loss) attributable to common shareholders between continuing operations and discontinued operations, reflecting an allocation of income or loss attributable to noncontrolling interests between continuing and discontinued operations, for the three and nine months ended September 30, 2011 and 2010, respectively (in thousands):

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Income (loss) from continuing operations attributable to common shareholders	\$(34,072	) \$22,417	\$(29,490	) \$(49,583
Income from discontinued operations attributable to common shareholders	1,996	11,647	15,941	25,992
Net income (loss) attributable to common shareholders	\$(32,076	) \$34,064	\$(13,549	) \$(23,591

At September 30, 2011, we classified three in-service properties as held-for-sale, which were included in discontinued operations, due to our present intention to sell the properties in October 2011. The following table illustrates aggregate balance sheet information of the aforementioned three properties included in discontinued operations at September 30, 2011 (in thousands):

Real estate investment, net	\$18,466
Other assets	3,526
Total assets held-for-sale	\$21,992
Accrued expenses	\$666
Other liabilities	291
Total liabilities held-for-sale	\$957

11. Subsequent Events

Declaration of Dividends

Our board of directors declared the following dividends at its regularly scheduled board meeting held on October 26, 2011:

Class	Quarterly Amount/Share	Record Date	Payment Date
Common	\$0.17	November 16, 2011	November 30, 2011
Preferred (per depositary share):			
Series J	\$0.414063	November 16, 2011	November 30, 2011
Series K	\$0.406250	November 16, 2011	November 30, 2011
Series L	\$0.412500	November 16, 2011	November 30, 2011
Series M	\$0.434375	December 16, 2011	December 31, 2011
Series O	\$0.523438	December 16, 2011	December 31, 2011

Portfolio Disposition Agreement

On October 20, 2011, we entered into a Purchase and Sale Agreement (the "Purchase Agreement"), pursuant to which we will sell a real estate portfolio consisting of 82 buildings that have an aggregate of 10.1 million square feet and comprise nearly all of our wholly owned office properties located in Atlanta, Chicago, Columbus, Dallas, Minneapolis, Orlando and Tampa. The purchase price, which was determined through arm's length negotiations between us and the buyer, will be \$1.08 billion and we expect to recognize a net gain on sale. As of October 20, 2011, the Buyer had paid a nonrefundable earnest money deposit of \$40.0 million. The closing of the transactions contemplated by the Purchase Agreement is subject to the satisfaction of certain customary closing conditions. Although there are no assurances that the conditions will be met or that the transaction will be consummated, the parties to the Purchase Agreement anticipate that the closing will occur on or about December 1, 2011.

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 I of this Quarterly Report on Form 10-Q (this "Report") and the consolidated financial statements and notes thereto, contained in Part IV, Item 15 of our Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission (the "SEC") on February 25, 2011. As used herein, the terms "we", "us" and "our" refer to Duke Realty Corporation (the "Company") and those entities owned or controlled by the Company.

Cautionary Notice Regarding Forward-Looking Statements

Certain statements contained in or incorporated by reference into this Report including, without limitation, those related to our future operations, constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words "believe," "estimate," "expect," "anticipate," "intend," "plan," "seek," "may," and similar expressions or statements regarding periods are intended to identify forward-looking statements.

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

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

• Our continued qualification as a real estate investment trust ("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 our stock price and trading volume;

• Our continuing ability to raise funds on favorable terms;

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

• 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 retain our current credit ratings;

• Inherent risks in the real estate business, including, but not limited to, tenant defaults, potential liability relating to environmental matters, climate change 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 SEC.

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

This list of risks and uncertainties, however, is only a summary of some of the most important factors and is not intended to be exhaustive. Additional information regarding risk factors that may affect us is included under the caption "Risk Factors" in Part II, Item 1A of this Report, and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, which we filed with the SEC on February 25, 2011. The risk factors contained in our Annual Report are updated by us from time to time in Quarterly Reports on Form 10-Q and other public filings.

Business Overview

We are a self-administered and self-managed REIT that began operations through a related entity in 1972. A more complete description of our business, and of management's philosophy and priorities, is included in our 2010 Annual Report on Form 10-K.

As of September 30, 2011, we:

Owned or jointly controlled 807 industrial, office, medical office and other properties, of which 799 properties with approximately 141.3 million square feet are in service and eight properties with more than 1.3 million square feet are under development. The 799 in-service properties are comprised of 672 consolidated properties with approximately 115.8 million square feet and 127 jointly controlled unconsolidated properties with approximately 25.5 million square feet. The eight properties under development consist of six consolidated properties with approximately 666,000 square feet and two jointly controlled unconsolidated properties with approximately 679,000 square feet.

Owned, including through ownership interests in unconsolidated joint ventures, more than 4,750 acres of land and controlled an additional 1,650 acres through purchase options.

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

A key component of our overall strategy is to increase our investment in quality industrial properties in both existing and select new markets, expand our medical office portfolio nationally to take advantage of demographic trends and to reduce our investment in suburban office properties and other non-strategic assets.

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 critical for future revenues.

Occupancy Analysis

Our ability to maintain high occupancy rates is a principal driver of maintaining and increasing rental revenue from continuing operations. The following table sets forth occupancy information regarding our in-service portfolio of consolidated rental properties as of September 30, 2011 and 2010, respectively (in thousands, except percentage data):

Type	Total Square Feet		Percent of Total Square Feet		Percent Occupied		
	2011	2010	2011	2010	2011	2010	
Industrial	86,746	77,495	74.9	% 69.8	% 92.9	% 91.2	%
Office	26,059	30,734	22.5	% 27.7	% 84.6	% 85.8	%
Other (Medical Office and Retail)	2,986	2,725	2.6	% 2.5	% 86.3	% 83.8	%
Total	115,791	110,954	100.0	% 100.0	% 90.9	% 89.5	%

Lease Expiration and Renewals

Our ability to maintain and improve occupancy rates primarily depends upon our continuing ability to re-lease expiring space. The following table reflects our consolidated in-service portfolio lease expiration schedule by property type as of September 30, 2011. The table indicates square footage and annualized net effective rents (based on September 30, 2011 rental revenue) under expiring leases (in thousands, except percentage data):

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Year of Expiration	Total Consolidated Portfolio			Industrial		Office		Other		Ann. Rent Revenue
	Square Feet	Ann. Rent Revenue	% of Revenue	Square Feet	Ann. Rent Revenue	Square Feet	Ann. Rent Revenue	Square Feet	Ann. Rent Revenue	
Remainder of 2011	3,623	\$20,942	3 %	2,820	\$11,587	790	\$9,214	13	\$141	
2012	7,825	55,166	8 %	5,276	22,387	2,492	31,782	57	997	
2013	16,498	100,582	15 %	13,004	51,731	3,445	47,928	49	923	
2014	12,706	74,340	11 %	9,922	37,753	2,638	33,918	146	2,669	
2015	13,370	77,006	12 %	10,497	40,674	2,843	35,709	30	623	
2016	12,496	67,315	10 %	10,190	37,083	2,200	27,984	106	2,248	
2017	9,079	55,763	8 %	7,079	27,649	1,693	21,651	307	6,463	
2018	6,129	51,962	8 %	3,824	15,445	1,761	23,979	544	12,538	
2019	4,163	39,582	6 %	2,301	10,242	1,595	22,794	267	6,546	
2020	6,658	43,512	7 %	5,286	19,901	1,000	15,904	372	7,707	
2021 and Thereafter	12,685	77,597	12 %	10,404	40,059	1,595	21,367	686	16,171	
Total Leased	105,232	\$663,767	100 %	80,603	\$314,511	22,052	\$292,230	2,577	\$57,026	
Total Portfolio Square Feet	115,791			86,746		26,059		2,986		
Percent Occupied	90.9 %			92.9 %		84.6 %		86.3 %		

Within our consolidated properties, we renewed 74.4% and 64.1% of our leases up for renewal in the three and nine months ended September 30, 2011, totaling approximately 2.2 million and 7.2 million square feet, respectively. This compares to renewals of 75.8% and 80.5% for the three and nine months ended September 30, 2010, which totaled approximately 2.7 million and 7.5 million square feet, respectively. Although our lease renewal percentage declined from the same periods in 2010, new leasing activity enabled us to improve occupancy within our consolidated properties. There was a 1.8% increase and a 4.2% decline in average contractual rents on these renewals in the three and nine months ended September 30, 2011, respectively.

The average term of renewals for the three and nine months ended September 30, 2011 was 3.5 and 4.1 years, compared to 5.4 and 6.0 years for the three and nine months ended September 30, 2010, respectively.

Acquisition and Disposition Activity

For the nine months ended September 30, 2011, we acquired 30 properties and other real estate-related assets, for \$366.7 million, with 16 of these properties representing the completion of our acquisition of a portfolio of buildings in South Florida (the "Premier Portfolio"). The initial 39 properties from the Premier Portfolio were acquired on December 30, 2010. These acquisitions represent further advancement of our strategy to increase our concentration in industrial properties.

On July 1, 2010, we acquired our joint venture partner's 50% interest in Dugan Realty, L.L.C. ("Dugan"), a real estate joint venture that we had previously accounted for using the equity method, for a payment of \$166.3 million. Dugan held \$28.1 million of cash at the time of acquisition, which resulted in a net cash outlay of \$138.2 million. At the date of acquisition, Dugan owned 106 industrial buildings totaling 20.8 million square feet and 62.6 net acres of undeveloped land located in Midwest and Southeast markets. The total acquisition date fair value of Dugan's assets was \$638.2 million and we also assumed liabilities, including secured debt, having a total fair value of \$305.7 million.

Additionally, in the nine months ended September 30, 2010, we also acquired six properties for a total purchase price of \$185.5 million. These acquisitions consisted of two suburban office properties and two bulk industrial properties in South Florida, one bulk industrial property in Phoenix, Arizona, and one bulk industrial property in Columbus, Ohio.

Also, in the first nine months of 2010, one of our unconsolidated joint ventures, in which we have a 20% equity interest, acquired two properties for \$42.3 million. We contributed \$8.6 million to the joint venture for our share of these acquisitions.

Net cash proceeds related to the dispositions of wholly owned undeveloped land and buildings totaled \$504.7 million and \$200.4 million for the nine months ended September 30, 2011 and 2010, respectively. Included in the wholly owned building dispositions in the nine months ended September 30, 2011 is the sale of 13 suburban office properties for net proceeds of \$273.7 million, totaling approximately 2.0 million square feet, to a joint venture in which we own 20%.

Our share of proceeds from sales of properties within unconsolidated joint ventures in which we have less than a 100% interest totaled \$4.7 million for the nine months ended September 30, 2010. There were no such dispositions in the same period in

2011.

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

Development

At September 30, 2011, we had 1.3 million square feet of property under development with total estimated costs upon completion of \$237.4 million compared to 3.5 million square feet with total costs upon completion of \$356.1 million at September 30, 2010. We have continued to limit our development projects to build-to-suit or partially pre-leased properties and select medical office developments. The square footage and estimated costs include both consolidated and joint venture development activity at 100%.

The following table summarizes our properties under development as of September 30, 2011 (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	666	86%	\$128,525	\$25,808	\$102,717
Joint venture properties	679	100%	108,880	18,959	89,921
Total	1,345	94%	\$237,405	\$44,767	\$192,638

Funds From Operations

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

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

Management believes that the use of FFO attributable to common shareholders, combined with net income (which remains the primary measure of performance), improves the understanding of operating results of REITs among the investing public and makes comparisons of REIT operating results more meaningful. Management believes that excluding gains or losses related to sales of previously depreciated real estate assets and excluding real estate asset depreciation and amortization 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 assist them in comparing these operating results between periods or between different companies.

The following table shows a reconciliation of net income (loss) attributable to common shareholders to the calculation of FFO attributable to common shareholders for the three and nine months ended September 30, 2011 and 2010, respectively (in thousands):

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	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Net income (loss) attributable to common shareholders	\$(32,076)	\$34,064	\$(13,549)	\$(23,591)
Adjustments:				
Depreciation and amortization	97,335	97,913	292,429	264,086
Company share of joint venture depreciation and amortization	8,531	7,336	24,798	27,271
Earnings from depreciable property sales—wholly owned	(651)	(11,402)	(83,315)	(31,300)
Earnings from depreciable property sales—share of joint venture	—	—	(91)	(2,308)
Noncontrolling interest share of adjustments	(2,835)	(2,018)	(6,206)	(6,611)
Funds From Operations attributable to common shareholders	\$70,304	\$125,893	\$214,066	\$227,547

Results of Operations

A summary of our operating results and property statistics for the three and nine months ended September 30, 2011 and 2010, respectively, is as follows (in thousands, except number of properties and per share data):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Rental and related revenue	\$233,555	\$228,299	\$698,619	\$642,489
General contractor and service fee revenue	127,708	132,351	409,617	414,391
Operating income	49,930	48,403	219,744	144,994
Net income (loss) attributable to common shareholders	(32,076)	34,064	(13,549)	(23,591)
Weighted average common shares outstanding	252,802	251,866	252,618	234,468
Weighted average common shares and potential dilutive securities	252,802	257,383	252,618	234,468
Basic income (loss) per common share:				
Continuing operations	\$(0.14)	\$0.08	\$(0.13)	\$(0.22)
Discontinued operations	\$0.01	\$0.05	\$0.07	\$0.11
Diluted income (loss) per common share:				
Continuing operations	\$(0.14)	\$0.08	\$(0.13)	\$(0.22)
Discontinued operations	\$0.01	\$0.05	\$0.07	\$0.11
Number of in-service consolidated properties at end of period	672	633	672	633
In-service consolidated square footage at end of period	115,791	110,954	115,791	110,954
Number of in-service joint venture properties at end of period	127	108	127	108
In-service joint venture square footage at end of period	25,481	22,085	25,481	22,085

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Comparison of Three Months Ended September 30, 2011 to Three Months Ended September 30, 2010

Rental and Related Revenue

The following table sets forth rental and related revenue from continuing operations by reportable segment for the three months ended September 30, 2011 and 2010, respectively (in thousands):

	Three Months Ended September 30,	
	2011	2010
Rental and Related Revenue:		
Office	\$111,376	\$124,397
Industrial	98,874	84,249
Non-reportable segments	23,305	19,653
Total	\$233,555	\$228,299

The following factors contributed to these results:

We acquired 80 properties, of which 70 were industrial, and placed seven developments in service from January 1, 2010 to September 30, 2011, which provided incremental revenues of \$19.6 million in the third quarter of 2011, as compared to the same period in 2010.

We sold 23 office properties to an unconsolidated joint venture in 2010 and the first quarter of 2011, resulting in a \$16.2 million decrease in rental and related revenue from continuing operations in the three months ended September 30, 2011.

The overall shift of revenues and income from office properties to industrial properties is consistent with our continuing strategy to increase our asset concentration in industrial properties while reducing our overall investment in office properties.

Rental Expenses and Real Estate Taxes

The following table sets forth rental expenses and real estate taxes by reportable segment for the three months ended September 30, 2011 and 2010, respectively (in thousands):

	Three Months Ended September 30,	
	2011	2010
Rental Expenses:		
Office	\$33,050	\$35,220
Industrial	11,013	7,919
Non-reportable segments	5,884	4,489
Total	\$49,947	\$47,628
Real Estate Taxes:		
Office	\$15,558	\$17,162
Industrial	15,855	13,614
Non-reportable segments	2,372	1,883
Total	\$33,785	\$32,659

We recognized incremental costs of \$4.1 million associated with the additional 80 properties acquired (of which 70 were industrial) and seven developments placed in service since January 1, 2010. Partially offsetting the impact of our acquisition and development activity was a decrease to rental expenses of \$3.6 million related to 23 office properties that were sold to an unconsolidated joint venture during 2010 and the first quarter of 2011.

We recognized incremental costs of \$3.6 million associated with the additional 80 properties acquired and seven developments placed in service since January 1, 2010. This increase was partially offset by a decrease of \$2.5 million related to the 23 properties that were sold to a joint venture during 2010 and the first quarter of 2011.

Service Operations

The following table sets forth the components of the Service Operations reportable segment for the three months ended September 30, 2011 and 2010, respectively (in thousands):

	Three Months Ended September 30,	
	2011	2010
Service Operations:		
General contractor and service fee revenue	\$ 127,708	\$ 132,351
General contractor and other services expenses	(120,547)	(124,653)
Total	\$ 7,161	\$ 7,698

Service Operations primarily consist of the leasing, property management, asset management, development, construction management and general contractor services for joint venture properties and properties owned by third parties. Service Operations are heavily influenced by the current state of the economy, as leasing and property management fees are dependent upon occupancy, while construction and development services rely on the expansion of business operations of third-party property owners and joint venture partners. A decrease in total construction volume from the third quarter of 2010 drove the decrease in our earnings from Service Operations.

Depreciation and Amortization

Depreciation and amortization expense increased from \$94.5 million during the third quarter of 2010 to \$96.9 million for the same period in 2011, primarily due to shorter-lived lease-based intangible assets being recognized in conjunction with our acquisition activity in 2010 and 2011.

Equity in Earnings of Unconsolidated Companies

Equity in earnings represents our ownership share of net income or loss from investments in unconsolidated joint ventures that generally own and operate rental properties and develop properties for sale. These earnings increased from \$580,000 in the three months ended September 30, 2010 to \$3.1 million for the same period in 2011. The increase in equity in earnings was largely due to our share of earnings for the quarter from a 50%-owned construction joint venture that was formed for the purpose of executing an environmental remediation and infrastructure project.

Gain on Sale of Properties

During the third quarter of 2011, we determined it necessary to complete a roof replacement at our expense, pursuant to contractual obligations on a property that we had sold during a prior period to a 20%-owned unconsolidated joint venture and accordingly accrued the cost of replacement and recognized a \$1.4 million adjustment to reduce the original gain on the sale. Prior to the third quarter of 2011, we had employed other, less costly, repair measures and our best estimates did not indicate that the replacement of the roof was necessary.

Impairment Charges

In the third quarter of 2010, we sold 50 acres of land, which resulted in an impairment charge of \$1.9 million. We had not previously identified or actively marketed this land for disposition.

General and Administrative Expense

General and administrative expenses increased from \$8.5 million for the third quarter of 2010 to \$9.5 million for the same period in 2011. General and administrative expenses consist of two components. The first component includes general corporate expenses and the second component includes the indirect operating costs not allocated to the development or operations of our wholly-owned properties and Service Operations. Those indirect costs not allocated to or absorbed by these operations are charged to general and administrative expenses. While our overall pool of overhead expenses was relatively consistent, the amount of such costs absorbed by our leasing activities declined slightly, as the result of less leasing activity, thus driving an increase in indirect costs charged to general and administrative expenses in the third quarter of 2011.

Interest Expense

Interest expense increased from \$61.5 million in the third quarter of 2010 to \$66.9 million in the third quarter of 2011. The increase to interest expense in the third quarter of 2011 was primarily driven by higher overall borrowings that

were used to

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fund our acquisition activities in 2010 and 2011. A \$2.0 million decrease in the capitalization of interest costs, the result of reduced development activity, also contributed to the increase in interest expense.

Loss on Debt Transactions

During the third quarter of 2010, we repurchased certain of our outstanding series of unsecured notes scheduled to mature in 2011. In total, we paid \$4.2 million for unsecured notes that had a face value of \$4.2 million, recognizing a net loss on extinguishment of approximately \$167,000 after considering the write-off of applicable issuance costs and other accounting adjustments.

Acquisition-Related Activity

Acquisition-related activity consists of acquisition costs charged directly to expense as well as gains or losses recognized for the difference between the fair value and carrying value of our investment in acquired entities in which we held a preexisting ownership interest. During the third quarter of 2011, we recognized approximately \$342,000 in acquisition costs, compared to \$302,000 of such costs during the third quarter of 2010. During the third quarter of 2010, we also recognized a \$57.8 million gain on the acquisition of our joint venture partner's 50% interest in Dugan.

Discontinued Operations

Subject to certain criteria, the results of operations for properties sold during the year to unrelated parties or classified as held-for-sale at the end of the period are required to be classified as discontinued operations. The property specific components of earnings that are classified as discontinued operations include rental revenues, rental expenses, real estate taxes, allocated interest expense and depreciation expense, as well as the net gain or loss on the disposition of properties.

The operations of 36 buildings are classified as discontinued operations for both the three months ended September 30, 2011 and September 30, 2010. These 36 buildings consist of 25 office, nine industrial, and two retail properties. As a result, we classified a loss, before gain on sales, of \$36,000 and income, before gain on sales, of \$375,000 in discontinued operations for the three months ended September 30, 2011 and 2010, respectively. Of these properties, two were sold during the third quarter of 2011 and six were sold during the third quarter of 2010. The gains on disposal of \$2.1 million and \$11.5 million for the three months ended September 30, 2011 and 2010, respectively, are reported in discontinued operations.

Comparison of Nine Months Ended September 30, 2011 to Nine Months Ended September 30, 2010

Rental and Related Revenue

The following table sets forth rental and related revenue from continuing operations by reportable segment for the nine months ended September 30, 2011 and 2010, respectively (in thousands):

	Nine Months Ended September 30,	
	2011	2010
Rental and Related Revenue:		
Office	\$340,483	\$371,206
Industrial	290,219	212,832
Non-reportable segments	67,917	58,451
Total	\$698,619	\$642,489

The following factors contributed to these results:

We acquired 80 properties, of which 70 were industrial, and placed seven developments in service from January 1, 2010 to September 30, 2011, which provided incremental revenues of \$55.9 million in the nine months ended September 30, 2011, as compared to the same period in 2010.

We consolidated 106 industrial buildings as a result of acquiring our joint venture partner's 50% interest in Dugan on July 1, 2010. The consolidation of these buildings resulted in an increase of \$39.3 million in rental and related revenue for the nine months ended September 30, 2011, as compared to the same period in 2010.

We sold 23 office properties to an unconsolidated joint venture in 2010 and the first quarter of 2011, resulting in a \$39.6 million decrease in rental and related revenue from continuing operations in the nine months ended September 30, 2011.

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The overall shift of revenues and income from office properties to industrial properties is consistent with our continuing strategy to increase our asset concentration in industrial properties while reducing our overall investment in office properties.

Rental Expenses and Real Estate Taxes

The following table sets forth rental expenses and real estate taxes by reportable segment for the nine months ended September 30, 2011 and 2010, respectively (in thousands):

	Nine Months Ended September 30,	
	2011	2010
Rental Expenses:		
Office	\$99,996	\$106,960
Industrial	34,479	22,269
Non-reportable segments	18,527	13,904
Total	\$153,002	\$143,133
Real Estate Taxes:		
Office	\$48,700	\$50,837
Industrial	46,815	32,168
Non-reportable segments	6,421	5,389
Total	\$101,936	\$88,394

We recognized incremental costs of \$11.8 million associated with the additional 80 properties acquired (of which 70 were industrial) and seven developments placed in service. The July 1, 2010 consolidation of 106 industrial buildings in Dugan also resulted in a \$6.0 million increase in rental expense for industrial properties in the first nine months of 2011. The aforementioned increases were partially offset by a decrease of \$8.8 million related to 23 properties that were sold to an unconsolidated joint venture during 2010 and the first quarter of 2011.

We recognized incremental costs of \$10.2 million associated with the additional 80 properties acquired and seven developments placed in service since January 1, 2010. The consolidation of the 106 industrial buildings in Dugan resulted in incremental real estate taxes of \$7.0 million, which was partially offset by a decrease of \$5.9 million related to 23 properties that were sold to an unconsolidated joint venture during 2010 and the first quarter of 2011. The remaining increases were the result of increased taxes on our existing properties.

Service Operations

The following table sets forth the components of the Service Operations reportable segment for the nine months ended September 30, 2011 and 2010, respectively (in thousands):

	Nine Months Ended September 30,	
	2011	2010
Service Operations:		
General contractor and service fee revenue	\$409,617	\$414,391
General contractor and other services expenses	(379,180)	(392,433)
Total	\$30,437	\$21,958

The improvement in income from Service Operations was due to increased average profit margins on third-party construction activities performed during the first nine months of 2011 compared to contracts in progress during 2010.

Depreciation and Amortization

Depreciation and amortization expense increased from \$253.2 million during the first nine months of 2010 to \$290.8 million for the same period in 2011, primarily due to shorter-lived lease-based intangible assets being recognized in conjunction with

our acquisition activity in 2010 and 2011.

Equity in Earnings of Unconsolidated Companies

Equity in earnings decreased from \$7.5 million in the nine months ended September 30, 2010 to \$5.9 million for the same period in 2011. This decrease was largely due to the consolidation of 106 properties upon the acquisition of our partner's 50% interest in Dugan on July 1, 2010.

Gain on Sale of Properties

During the nine months ended September 30, 2011, we sold 18 properties that did not meet the criteria for inclusion in discontinued operations, recognizing total gains on sale of \$66.9 million. During the nine months ended September 30, 2010, we sold eight properties that did not meet the criteria for inclusion in discontinued operations, recognizing total gains on sale of \$6.9 million.

Impairment Charges

Impairment charges totaled \$9.8 million in the nine months ended September 30, 2010. In the nine-month period ended September 30, 2010, we sold 50 acres of land, which resulted in an impairment charge of \$8.0 million. We had not previously identified or actively marketed this land for disposition. Additionally, we recorded a \$1.9 million impairment charge on one additional parcel of land that was previously intended to be held for development but, as the result of an unplanned disposition opportunity, was subsequently determined to be probable of selling at a loss prior to the end of 2010.

General and Administrative Expense

General and administrative expenses decreased from \$31.2 million for the nine months ended September 30, 2010 to \$29.2 million for the same period in 2011. The reduction in general and administrative expenses was primarily the result of an increase in the absorption of indirect costs from leasing activities in the nine month period ended September 30, 2011.

Interest Expense

Interest expense increased from \$175.1 million in the first nine months of 2010 to \$199.3 million in the first nine months of 2011. The increase to interest expense was primarily driven by increased overall borrowings that were driven by our acquisition activities. A \$6.3 million decrease in the capitalization of interest costs, the result of reduced development activity, also contributed to the increase in interest expense.

Loss on Debt Transactions

During the first nine months of 2010, through a cash tender offer and open market transactions, we repurchased certain of our outstanding series of unsecured notes scheduled to mature in 2011 and 2013. In total, we paid \$292.2 million for unsecured notes that had a face value of \$279.9 million, recognizing a net loss on extinguishment of \$16.3 million after considering the write-off of unamortized deferred financing costs and discounts.

Acquisition-Related Activity

During the first nine months of 2011, we recognized approximately \$1.5 million in acquisition costs, compared to \$302,000 of such costs during the first nine months of 2010. During the first nine months of 2010, we also recognized a \$57.8 million gain on the acquisition of our joint venture partner's 50% interest in Dugan.

Discontinued Operations

The operations of 36 buildings are classified as discontinued operations for the nine months ended September 30, 2011 and September 30, 2010. These 36 buildings consist of 25 office, nine industrial, and two retail properties. As a result, we classified a loss, before gain on sales, of \$30,000 and income, before gain on sales, of \$2.3 million in discontinued operations for the nine months ended September 30, 2011 and 2010, respectively.

Of these properties, 14 were sold during the first nine months of 2011 and 17 were sold during the first nine months of 2010. The \$16.4 million and \$24.4 million gains on disposal of these properties for the nine months ended September 30, 2011 and 2010, respectively, are also reported in discontinued operations.

Liquidity and Capital Resources

Sources of Liquidity

We expect to meet our short-term liquidity requirements over the next twelve months, including payments of dividends and distributions as well as capital expenditures needed to maintain our current real estate assets, primarily through working capital, net cash provided by operating activities and proceeds received from real estate dispositions. Additionally, we have \$284.0 million of outstanding borrowings on DRLP's \$850.0 million unsecured line of credit at September 30, 2011, which allows us significant additional flexibility for temporary financing of either short-term obligations or strategic acquisitions.

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.

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 periodic straight-line rental income accruals and amortization of above or below market rents) as cash receipts from the leasing of rental properties are generally received in advance of, or a short time following, the actual revenue recognition.

We are subject to a number of risks as a result of 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 DRLP unsecured line of credit as a temporary source of capital to fund development activities, acquire additional rental properties and provide working capital.

At September 30, 2011, we had on file with the SEC an automatic shelf registration statement on Form S-3 relating to the offer and sale, from time to time, of an indeterminate amount of DRLP's debt securities (including guarantees thereof) and the Company's common shares, preferred shares and other securities. From time to time, we expect to issue additional securities under this automatic shelf registration statement to fund the repayment of long-term debt upon maturity and for other general corporate purposes.

Pursuant to our automatic shelf registration statement, at September 30, 2011, we had on file with the SEC a prospectus supplement that allows us to issue new shares of our common stock, from time to time, pursuant to an at the market offering program, with an aggregate offering price of up to \$150.0 million. No new shares have been issued pursuant to this prospectus supplement as of September 30, 2011.

The indentures (and related supplemental indentures) governing our outstanding series of notes require us to comply with financial ratios and other covenants regarding our operations. We were in compliance with all such covenants, as well as applicable covenants under our unsecured line of credit, as of September 30, 2011.

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. Future adverse changes to market and economic conditions, including, without limitation, the availability and cost of credit, the U.S. mortgage market, and condition of the equity and real estate markets could prevent us from disposing of such properties quickly, if at all.

Transactions with Unconsolidated Entities

Transactions with unconsolidated partnerships and joint ventures also provide a source of liquidity. From time to time we will sell properties to unconsolidated entities, while retaining a continuing interest in that entity, and receive proceeds commensurate to those interests that we do not own. Additionally, unconsolidated entities will from time to time obtain debt financing and will distribute to us, and our joint venture partners, all or a portion of the proceeds from such debt financing.

We have a 20% equity interest in an unconsolidated joint venture (“Duke/Hulfish”) which, along with its subsidiary entities,

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has acquired 35 properties from us since its formation in May 2008. We have received cumulative net sale and financing proceeds of approximately \$847.2 million through September 30, 2011. We are party to an agreement that allows Duke/Hulfish a right of first offer to acquire future build-to-suit or speculative developments on certain of our parcels of undeveloped land.

During the nine months ended September 30, 2011, we sold 13 suburban office buildings, totaling approximately 2.0 million square feet, to Duke/Hulfish, for \$342.8 million, of which our 80% share of net proceeds totaled \$273.7 million. During 2011 we also received a net financing distribution of \$46.9 million, which was commensurate to our 20% share of the net proceeds of permanent financing that was obtained by Duke/Hulfish.

Uses of Liquidity

Our principal uses of liquidity include the following:

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

Property Investment

We continue to pursue an asset repositioning strategy that involves increasing our investment concentration in industrial and medical office properties while reducing our investment concentration in suburban office properties. Pursuant to this strategy, we evaluate development and acquisition opportunities based upon market outlook, supply and long-term growth potential. Our ability to make future property investments, along with being dependent upon identifying suitable acquisition and development opportunities, is also dependent upon 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.

In light of current economic conditions, management continues to evaluate our investment priorities and remains focused on accretive growth.

Second Generation Expenditures

Tenant improvements and leasing costs to re-let rental space that has been previously under lease to tenants 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 is a summary of our second generation capital expenditures by type of expenditure (in thousands):

	Nine Months Ended September 30,	
	2011	2010
Second generation tenant improvements	\$34,312	\$30,003
Second generation leasing costs	31,988	29,012
Building improvements	5,432	4,346
Totals	\$71,732	\$63,361

The following is a summary of our second generation capital expenditures by reportable operating segment (in thousands):

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	Nine Months Ended September	
	30,	
	2011	2010
Office	\$46,835	\$47,348
Industrial	24,642	15,562
Non-reportable segments	255	451
Totals	\$71,732	\$63,361

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Dividend and Distribution Requirements

We are required to meet the distribution requirements of the Internal Revenue Code of 1986, as amended (the “Code”), in order to maintain our REIT status. Because depreciation is a non-cash expense, cash flow will typically be greater than operating income. We paid distributions of \$0.17 per common share in the first three quarters of 2011 and our board of directors declared dividends of \$0.17 per share for the fourth quarter of 2011. Our future dividends will be declared at the discretion of our board of directors and will be subject to our future capital needs and availability.

At September 30, 2011, we had five series of preferred stock outstanding. The annual dividend rates on our preferred shares range between 6.5% and 8.375% and are paid in arrears quarterly. In July 2011, we redeemed all of our 7.25% Series N Cumulative Redeemable Preferred Shares (“Series N Shares”) for a total payment of \$108.6 million, thus reducing our future quarterly dividend commitments by \$2.0 million.

Debt Maturities

Debt outstanding at September 30, 2011 had a face value totaling \$4.3 billion with a weighted average interest rate of 6.12% and matures at various dates through 2028. Of this total amount, we had \$2.8 billion of unsecured notes, \$304.3 million outstanding on our unsecured lines of credit and \$1.2 billion of secured debt outstanding at September 30, 2011. Scheduled principal amortization, repurchases and maturities of such debt totaled \$191.2 million for the nine months ended September 30, 2011.

The following is a summary of the scheduled future amortization and maturities of our indebtedness at September 30, 2011 (in thousands, except percentage data):

Year	Future Repayments			Weighted Average Interest Rate of Future Repayments	
	Scheduled Amortization	Maturities	Total		
Remainder of 2011	\$4,401	\$167,643	\$172,044	4.25	%
2012	17,424	353,017	370,441	5.34	%
2013	17,014	805,644	822,658	5.14	%
2014	15,734	305,012	320,746	6.34	%
2015	13,401	349,102	362,503	6.84	%
2016	11,495	492,560	504,055	6.16	%
2017	9,842	536,921	546,763	5.95	%
2018	7,937	300,000	307,937	6.08	%
2019	6,936	518,438	525,374	7.97	%
2020	5,381	250,000	255,381	6.73	%
2021	3,416	9,047	12,463	5.59	%
Thereafter	17,789	50,000	67,789	6.86	%
	\$130,770	\$4,137,384	\$4,268,154	6.12	%

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.

Repurchases of Outstanding Debt and Preferred Stock

In the first nine months of 2011, we repaid \$42.5 million of senior unsecured notes, which had an effective interest rate of 6.96% and \$122.5 million of senior unsecured notes which had an effective interest rate of 5.69%, both at their respective scheduled maturity dates.

During the first nine months of 2011, we repurchased 80,000 shares of our 8.375% Series O Cumulative Redeemable Preferred Shares (the “Series O Shares”). In total, we paid \$2.1 million for these preferred shares that had a face value of \$2.0 million. We paid \$108.6 million in July 2011 to redeem our Series N Shares at par value.

To the extent that it supports our overall capital strategy, we may purchase certain of our outstanding unsecured debt prior to its stated maturity or redeem or repurchase certain of our outstanding series of preferred stock.

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Historical Cash Flows

Cash and cash equivalents were \$16.2 million and \$20.8 million at September 30, 2011 and 2010, respectively. The following highlights significant changes in net cash associated with our operating, investing and financing activities (in millions):

	Nine Months Ended September 30,	
	2011	2010
Net Cash Provided by Operating Activities	\$245.1	\$242.9
Net Cash Provided by (Used for) Investing Activities	\$125.3	\$(307.0)
Net Cash Used for Financing Activities	\$(372.6)	\$(62.4)

Operating Activities

The receipt of rental income from Rental Operations continues to be our primary source of operating cash flows. For the nine months ended September 30, 2011, cash provided by operating activities increased to \$245.1 million from \$242.9 million in the same period in 2010.

Investing Activities

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

Real estate development costs increased to \$125.7 million for nine months ended September 30, 2011 from \$82.4 million for the same period in 2010, primarily as a result of one build-to-suit property that was completed and sold in June 2011.

Sales of land and depreciated property provided \$504.7 million in net proceeds for the nine months ended September 30, 2011, compared to \$200.4 million for the same period in 2010.

During the nine months ended September 30, 2011, we received a \$54.7 million cash distribution, which represented our share of the net proceeds from a loan obtained by one of our unconsolidated joint ventures.

During the nine months ended September 30, 2011, we paid cash of \$179.0 million for real estate acquisitions and \$3.8 million for undeveloped land acquisitions, compared to \$260.9 million for real estate acquisitions and \$13.4 million for undeveloped land acquisitions in the same period in 2010.

Financing Activities

The following items highlight some of the factors that account for the difference in net cash flow related to financing activities in the first nine months of 2011 compared to the same period in 2010:

In March 2011 and August 2011, we repaid \$42.5 million and \$122.5 million, respectively, of unsecured notes with an effective rate of 6.96% and 5.69%, respectively, at their scheduled maturity dates, while, in January 2010, we repaid \$99.8 million of senior unsecured notes with an effective interest rate of 5.37% on their scheduled maturity date.

During the nine months ended September 30, 2011, we completed open market repurchases of approximately 80,000 shares of our Series O Shares, compared to repurchases of approximately 4.4 million of such shares during the same period in 2010. We paid \$2.1 million during the nine months ended September 30, 2011 for shares which had a face value of \$2.0 million, compared to \$115.8 million during the same period in 2010 for shares which had a face value of \$109.4 million.

In July 2011, we redeemed all of the outstanding shares of our Series N Shares for a total payment of \$108.6 million.

We increased net borrowings on DRLP's \$850.0 million unsecured line of credit by \$109.0 million for the nine months ended September 30, 2011, compared to an increase of \$81.0 million for the same period in 2010.

In April 2010, we issued \$250.0 million of senior unsecured notes that bear interest at 6.75% and mature in March 2020, compared to no issuances of senior unsecured notes for the nine months ended September 30, 2011.

During the first nine months of 2010, through a cash tender offer and other open market transactions, we repurchased certain of our outstanding series of unsecured notes scheduled to mature in 2011 and 2013. In total, we paid \$292.2 million for unsecured notes that had a face value of \$279.9 million.

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In June 2010, we issued 26.5 million shares of common stock for net proceeds of \$298.1 million, compared to no issuances of common stock for the nine months ended September 30, 2011.

Contractual Obligations

Aside from changes in long-term debt, there have not been material changes in our outstanding commitments since December 31, 2010, as previously discussed in our 2010 Annual Report on Form 10-K.

Off Balance Sheet Arrangements - Investments in Unconsolidated Companies

We analyze our investments in unconsolidated joint ventures to determine if they meet the criteria for classification as a variable interest entity (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 any guaranteed returns, protection against losses, or capping of residual returns within the group and (iii) establish whether activities within the venture are on behalf of an investor with disproportionately few voting rights in making this VIE determination. We would consolidate a venture that is determined to be a VIE if we were the primary beneficiary. To the extent that our joint ventures do not qualify as VIEs, we further assess each joint venture partner's substantive participating rights to determine if the venture should be consolidated.

We have equity interests in unconsolidated partnerships and limited liability companies that own and operate rental properties and hold land for development. These unconsolidated joint ventures are primarily engaged in the operations and development of industrial, office and medical office real estate properties. These investments provide us with increased market share and tenant and property diversification. The equity method of accounting is used for these investments in which we have the ability to exercise significant influence, but not control, over operating and financial policies. As a result, the assets and liabilities of these entities are not included on our balance sheet. Our investments in and advances to unconsolidated subsidiaries represented approximately 5% of our total assets as of both September 30, 2011 and December 31, 2010. Total assets of our unconsolidated subsidiaries were \$2.6 billion and \$2.2 billion as of September 30, 2011 and December 31, 2010, respectively. The combined revenues of our unconsolidated subsidiaries totaled \$201.3 million and \$181.9 million for the nine months ended September 30, 2011 and 2010, respectively.

We have guaranteed the repayment of certain secured and unsecured loans of our unconsolidated subsidiaries and the outstanding balances on the guaranteed portion of these loans totaled \$245.5 million at September 30, 2011.

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. We do not enter into derivative or interest rate transactions for speculative purposes. We have one outstanding swap, which has a fixed rate on one of our variable rate loans; it is not significant to our Financial Statements in terms of notional amount or fair value at September 30, 2011.

Our interest rate risk is monitored using a variety of techniques. The table below presents the principal amounts (in thousands) of the expected annual maturities, weighted average interest rates for the average debt outstanding in the specified period, fair values (in thousands) and other terms required to evaluate the expected cash flows and sensitivity to interest rate changes.

	Remainder of 2011	2012	2013	2014	2015	Thereafter	Face Value	Fair Value
Fixed rate secured debt	\$3,957	\$110,396	\$110,813	\$67,718	\$109,977	\$754,727	\$1,157,588	\$1,264,303
Weighted average interest rate	6.44	% 6.05	% 5.86	% 6.44	% 5.36	% 6.55	%	
Variable rate secured debt	\$—	\$16,906	\$880	\$935	\$300	\$3,100	\$22,121	\$22,121
Weighted average interest rate	N/A	4.77	% 0.28	% 0.28	% 0.15	% 0.15	%	
	\$168,087	\$201,845	\$426,965	\$252,093	\$252,226	\$1,461,935	\$2,763,151	\$2,913,647

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Fixed rate unsecured debt									
Weighted average interest rate	4.20	% 5.87	% 6.40	% 6.33	% 7.49	% 6.66	%		
Variable rate unsecured notes	\$—	\$21,000	\$—	\$—	\$—	\$—	\$21,000	\$20,886	
Rate at September 30, 2011	N/A	1.09	% N/A	N/A	N/A	N/A			
Unsecured lines of credit	\$—	\$20,294	\$284,000	\$—	\$—	\$—	\$304,294	\$309,287	
Rate at September 30, 2011	N/A	1.09	% 2.98	% N/A	N/A	N/A			

As the above table incorporates only those exposures that exist as of September 30, 2011, it does not consider those exposures or positions that could arise after that date. As a result, our ultimate realized gain or loss with respect to interest rate fluctuations will depend on the exposures that arise during the period, our hedging strategies at that time to the extent we are party to interest rate derivatives and interest rates. Interest expense on our unsecured lines of credit will be affected by fluctuations in the LIBOR indices as well as changes in our credit rating. The interest rate at such point in the future as we may renew, extend or replace our unsecured lines of credit will be heavily dependent upon the state of the credit environment.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

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

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

(b) Changes in Internal Control over Financial Reporting

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

Part II - Other Information

Item 1. Legal Proceedings

From time to time, we are parties to a variety of legal proceedings and claims arising in the ordinary course of our businesses. While these matters generally are covered by insurance, there is no assurance that our insurance will cover any particular proceeding or claim. We presently believe that all of these proceedings to which we were subject as of September 30, 2011, taken as a whole, will not have a material adverse effect on our liquidity, business, financial condition or results of operations.

Item 1A. Risk Factors

In addition to the information set forth in this Report, you also should carefully review and consider the information contained in our other reports and periodic filings that we make with the SEC, including, without limitation the information contained under the caption "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010. The risks and uncertainties described in our 2010 Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us, or that we presently deem to be immaterial, also may materially adversely affect our business, financial condition and results of operations.

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

(a) Unregistered Sales of Equity Securities

None

(b) Use of Proceeds

None

(c) Issuer Purchases of Equity Securities

From time to time, we repurchase our securities under a repurchase program that initially was approved by the board of directors and publicly announced in October 2001 (the "Repurchase Program").

The following table shows the share repurchase activity for the three months in the quarter ended September 30, 2011:

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Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares That May Yet be Repurchased Under the Plan (1)
July 1 - 31, 2011	4,207	\$14.45	4,207	74,195,141
August 1 - 31, 2011	8,962	\$11.54	8,962	74,091,719
September 1 - 30, 2011	4,199	\$11.20	4,199	74,044,691
Total	17,368	(2) \$12.16	17,368	

On April 27, 2011, the board of directors adopted a resolution that amended and restated the Repurchase Program and delegated authority to management to repurchase a maximum of \$75.0 million of common shares, \$250.0 million of debt securities and \$75.0 million of preferred shares (the "April 2011 Resolution"). The April 2011 Resolution will expire on April 27, 2012.

(1) Common shares repurchased in connection with our Employee Stock Purchase Plan, a component of our Repurchase Program.

Item 3. Defaults upon Senior Securities

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

Item 4. Reserved

Item 5. Other Information

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

Item 6. Exhibits

(a) Exhibits

- 3.1(i) Fourth Amended and Restated Articles of Incorporation of the Company (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K as filed with the SEC on July 30, 2009, and incorporated herein by this reference).
- 3.1(ii) Amendment to the Fourth Amended and Restated Articles of Incorporation of the Company (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K as filed with the SEC on July 22, 2011, and incorporated herein by this reference).
- 3.2 Fourth Amended and Restated Bylaws of the Company (filed as Exhibit 3.2 to the Company's Current Report on Form 8-K as filed with the SEC on July 30, 2009, and incorporated herein by this reference).
- 10.1 Fourth Amended and Restated Agreement of Limited Partnership of DRLP (filed as Exhibit 3.1 to DRLP's Current Report on Form 8-K as filed with the SEC on November 3, 2009, and incorporated herein by this reference).
- 10.1(ii) Amendment to Fourth Amended and Restated Agreement of Limited Partnership of DRLP (filed as Exhibit 3.1 to DRLP's Current Report on Form 8-K, as filed with the SEC on July 22, 2011, and incorporated herein by this reference).
- 11.1 Statement Regarding Computation of Earnings.***
- 12.1 Statement of Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Combined Fixed Charges and Preferred Dividends.*
- 31.1 Rule 13a-14(a) Certification of the Chief Executive Officer.*
- 31.2 Rule 13a-14(a) Certification of the Chief Financial Officer.*
- 32.1 Section 1350 Certification of the Chief Executive Officer.**
- 32.2 Section 1350 Certification of the Chief Financial Officer.**

101 The following materials from Duke Realty Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Cash Flows, (iv) the Consolidated Statement of Changes in Equity, (v) the Notes to Consolidated Financial Statements.

* Filed herewith.

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

*** Data required by Financial Accounting Standards Board Auditing Standards Codification No. 260 is provided in Note 8 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

Date: November 4, 2011

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

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

/s/ Mark A. Denien
Mark A. Denien
Senior Vice President and Chief Accounting Officer