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DUKE REALTY CORP

Form 10-Q

July 27, 2018

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

(Mark One)

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from _____ to _____

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

DUKE REALTY CORPORATION

DUKE REALTY LIMITED PARTNERSHIP

(Exact Name of Registrant as Specified in Its Charter)

Indiana (Duke Realty Corporation) 35-1740409 (Duke Realty Corporation)

Indiana (Duke Realty Limited Partnership) 35-1898425 (Duke Realty Limited Partnership)

(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification Number)

600 East 96th Street, Suite 100 46240

Indianapolis, Indiana (Address of Principal Executive Offices) (Zip Code)

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

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

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

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

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

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

Duke Realty Corporation:

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

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

Duke Realty Limited Partnership:

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

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

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

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

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

| Class | Outstanding Common Shares of Duke Realty Corporation at July 25, 2018 |
|---------------------------------------|--|
| Common Stock 0.01 par value per share | 357,270,096 |

EXPLANATORY NOTE

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

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

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

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

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

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

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

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

| | June 30, 2018 (Unaudited) | December 31, 2017 |
|--|--|----------------------|
| ASSETS | | |
| Real estate investments: | | |
| Real estate assets | \$ 6,785,491 | \$ 6,593,567 |
| Construction in progress | 496,496 | 401,407 |
| Investments in and advances to unconsolidated joint ventures | 108,768 | 126,487 |
| Undeveloped land | 226,931 | 226,987 |
| | 7,617,686 | 7,348,448 |
| Accumulated depreciation | (1,251,610) | (1,193,905) |
| Net real estate investments | 6,366,076 | 6,154,543 |
| Real estate investments and other assets held-for-sale | — | 17,550 |
| Cash and cash equivalents | 86,339 | 67,562 |
| Accounts receivable, net of allowance of \$1,445 and \$1,709 | 19,728 | 19,427 |
| Straight-line rent receivable, net of allowance of \$4,653 and \$5,254 | 96,749 | 93,005 |
| Receivables on construction contracts, including retentions | 13,442 | 13,480 |
| Deferred leasing and other costs, net of accumulated amortization of \$210,243 and \$209,451 | 313,061 | 292,682 |
| Restricted cash held in escrow for like-kind exchange | 146,110 | 116,405 |
| Notes receivable from property sales | 276,766 | 426,657 |
| Other escrow deposits and other assets | 184,547 | 186,885 |
| | \$ 7,502,818 | \$ 7,388,196 |
| LIABILITIES AND EQUITY | | |
| Indebtedness: | | |
| Secured debt, net of deferred financing costs of \$444 and \$614 | \$ 305,923 | \$ 311,349 |
| Unsecured debt, net of deferred financing costs of \$19,214 and \$20,500 | 2,111,506 | 2,111,542 |
| | 2,417,429 | 2,422,891 |
| Liabilities related to real estate investments held-for-sale | — | 1,163 |
| Construction payables and amounts due subcontractors, including retentions | 93,515 | 54,545 |
| Accrued real estate taxes | 75,768 | 67,374 |
| Accrued interest | 17,774 | 17,911 |
| Other liabilities | 147,800 | 210,825 |
| Tenant security deposits and prepaid rents | 41,562 | 39,109 |
| Total liabilities | 2,793,848 | 2,813,818 |
| Shareholders' equity: | | |
| Common shares (\$0.01 par value); 600,000 shares authorized; 357,166 and 356,361 shares issued and outstanding, respectively | 3,572 | 3,564 |
| Additional paid-in capital | 5,209,605 | 5,205,316 |
| Distributions in excess of net income | (552,685) | (676,036) |
| Total shareholders' equity | 4,660,492 | 4,532,844 |
| Noncontrolling interests | 48,478 | 41,534 |

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| | | |
|---|--------------------|-------------|
| Total equity | 4,708,970 | 4,574,378 |
| | \$7,502,818 | \$7,388,196 |
| See accompanying Notes to Consolidated Financial Statements | | |

3

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

| | Three Months Ended | | Six Months Ended | |
|---|---------------------------|-------------|-------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues: | | | | |
| Rental and related revenue | \$192,093 | \$165,836 | \$385,549 | \$337,512 |
| General contractor and service fee revenue | 18,465 | 23,576 | 59,566 | 32,975 |
| | 210,558 | 189,412 | 445,115 | 370,487 |
| Expenses: | | | | |
| Rental expenses | 16,769 | 14,506 | 37,165 | 30,743 |
| Real estate taxes | 31,196 | 26,902 | 62,342 | 53,412 |
| General contractor and other services expenses | 15,253 | 22,374 | 55,662 | 29,998 |
| Depreciation and amortization | 75,832 | 67,013 | 153,361 | 129,036 |
| | 139,050 | 130,795 | 308,530 | 243,189 |
| Other operating activities: | | | | |
| Equity in earnings of unconsolidated joint ventures | 1,682 | 51,933 | 9,969 | 56,682 |
| Promote income | — | 20,007 | — | 20,007 |
| Gain on sale of properties | 149,962 | 34,341 | 194,848 | 71,387 |
| Gain on land sales | 357 | 1,279 | 3,306 | 2,784 |
| Other operating expenses | (1,137) | (718) | (1,923) | (1,457) |
| Impairment charges | — | — | — | (859) |
| General and administrative expenses | (13,459) | (11,858) | (34,482) | (31,090) |
| | 137,405 | 94,984 | 171,718 | 117,454 |
| Operating income | 208,913 | 153,601 | 308,303 | 244,752 |
| Other income (expenses): | | | | |
| Interest and other income, net | 4,727 | 2,260 | 9,190 | 2,792 |
| Interest expense | (20,675) | (21,680) | (40,675) | (44,566) |
| Loss on debt extinguishment | (151) | (9,561) | (151) | (9,536) |
| Income from continuing operations before income taxes | 192,814 | 124,620 | 276,667 | 193,442 |
| Income tax expense | (63) | (5,426) | (10,392) | (7,557) |
| Income from continuing operations | 192,751 | 119,194 | 266,275 | 185,885 |
| Discontinued operations: | | | | |
| Income before gain on sales and income taxes | 31 | 11,095 | 23 | 15,185 |
| Gain on sale of depreciable properties | 2,889 | 1,109,091 | 3,021 | 1,109,091 |
| Income tax expense | — | (11,613) | — | (11,613) |
| Income from discontinued operations | 2,920 | 1,108,573 | 3,044 | 1,112,663 |
| Net income | 195,671 | 1,227,767 | 269,319 | 1,298,548 |
| Net income attributable to noncontrolling interests | (1,826) | (17,224) | (2,511) | (17,805) |
| Net income attributable to common shareholders | \$193,845 | \$1,210,543 | \$266,808 | \$1,280,743 |
| Basic net income per common share: | | | | |
| Continuing operations attributable to common shareholders | \$0.53 | \$0.33 | \$0.74 | \$0.52 |
| Discontinued operations attributable to common shareholders | 0.01 | 3.07 | 0.01 | 3.08 |
| Total | \$0.54 | \$3.40 | \$0.75 | \$3.60 |
| Diluted net income per common share: | | | | |
| Continuing operations attributable to common shareholders | \$0.53 | \$0.33 | \$0.73 | \$0.51 |
| Discontinued operations attributable to common shareholders | 0.01 | 3.05 | 0.01 | 3.06 |
| Total | \$0.54 | \$3.38 | \$0.74 | \$3.57 |

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| | | | | |
|--|------------------|-------------|------------------|-------------|
| Weighted average number of common shares outstanding | 357,054 | 355,647 | 356,898 | 355,466 |
| Weighted average number of common shares and potential dilutive securities | 362,741 | 361,981 | 362,551 | 361,789 |
| Comprehensive income: | | | | |
| Net income | \$195,671 | \$1,227,767 | \$269,319 | \$1,298,548 |
| Other comprehensive loss: | | | | |
| Amortization of interest contracts | — | (426) | — | (682) |
| Comprehensive income | \$195,671 | \$1,227,341 | \$269,319 | \$1,297,866 |

See accompanying Notes to Consolidated Financial Statements

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

| | 2018 | 2017 |
|---|------------------|-------------|
| Cash flows from operating activities: | | |
| Net income | \$269,319 | \$1,298,548 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation of buildings and tenant improvements | 126,039 | 124,883 |
| Amortization of deferred leasing and other costs | 27,322 | 30,002 |
| Amortization of deferred financing costs | 2,840 | 2,672 |
| Straight-line rental income and expense, net | (10,931) | (7,722) |
| Impairment charges | — | 859 |
| Loss on debt extinguishment | 151 | 9,536 |
| Gains on land and depreciated property sales | (201,175) | (1,183,262) |
| Third-party construction contracts, net | (5,122) | (1,945) |
| Other accrued revenues and expenses, net | 24,760 | 4,068 |
| Equity in earnings in excess of operating distributions received from unconsolidated joint ventures | (2,585) | (46,303) |
| Net cash provided by operating activities | 230,618 | 231,336 |
| Cash flows from investing activities: | | |
| Development of real estate investments | (227,186) | (288,833) |
| Acquisition of real estate investments and related intangible assets | (208,914) | (237,472) |
| Acquisition of undeveloped land | (98,486) | (67,923) |
| Second generation tenant improvements, leasing costs and building improvements | (26,337) | (20,112) |
| Other deferred leasing costs | (20,787) | (16,091) |
| Other assets | 145,300 | 18,648 |
| Proceeds from land and depreciated property sales, net | 433,551 | 1,977,127 |
| Capital distributions from unconsolidated joint ventures | 17,439 | 111,557 |
| Capital contributions and advances to unconsolidated joint ventures | (2,617) | (2,039) |
| Net cash provided by investing activities | 11,963 | 1,474,862 |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common shares, net | 1,376 | 3,690 |
| Payments on unsecured debt | (1,322) | (545,924) |
| Payments on secured indebtedness including principal amortization | (5,708) | (46,123) |
| Borrowings on line of credit, net | — | (48,000) |
| Distributions to common shareholders | (142,807) | (135,131) |
| Distributions to noncontrolling interests | (1,361) | (1,298) |
| Tax payments on stock-based compensation awards | (8,128) | (9,003) |
| Change in book cash overdrafts | (35,331) | (13,470) |
| Deferred financing costs | (285) | (8) |
| Net cash used for financing activities | (193,566) | (795,267) |
| Net increase in cash, cash equivalents and restricted cash | 49,015 | 910,931 |
| Cash, cash equivalents and restricted cash at beginning of period | 193,627 | 57,038 |
| Cash, cash equivalents and restricted cash at end of period | \$242,642 | \$967,969 |
| Non-cash investing and financing activities: | | |
| Carrying amount of pre-existing ownership interest in acquired property | \$5,034 | \$— |
| Notes receivable from buyers in property sales | \$— | \$400,000 |
| Conversion of Limited Partner Units to common shares | \$1,938 | \$1,683 |

See accompanying Notes to Consolidated Financial Statements

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

| | Common Shareholders | | | | |
|---|----------------------------|---|--|-------------------------------------|--------------------|
| | Common Stock | Additional Paid-in Capital | Distributions in Excess of Net Income | Noncontrolling Interests | Total |
| Balance at December 31, 2017 | \$ 3,564 | \$5,205,316 | \$ (676,036) | \$ 41,534 | \$4,574,378 |
| Net income | — | — | 266,808 | 2,511 | 269,319 |
| Issuance of common shares | 1 | 1,375 | — | — | 1,376 |
| Stock-based compensation plan activity | 6 | 977 | (650) | 7,732 | 8,065 |
| Conversion of Limited Partner Units | 1 | 1,937 | — | (1,938) | — |
| Distributions to common shareholders (\$0.40 per share) | — | — | (142,807) | — | (142,807) |
| Distributions to noncontrolling interests | — | — | — | (1,361) | (1,361) |
| Balance at June 30, 2018 | \$ 3,572 | \$5,209,605 | \$ (552,685) | \$ 48,478 | \$4,708,970 |

See accompanying Notes to Consolidated Financial Statements

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

| | June 30, 2018 | December 31, 2017 |
|--|--------------------------|----------------------|
| | (Unaudited) | |
| ASSETS | | |
| Real estate investments: | | |
| Real estate assets | \$ 6,785,491 | \$ 6,593,567 |
| Construction in progress | 496,496 | 401,407 |
| Investments in and advances to unconsolidated joint ventures | 108,768 | 126,487 |
| Undeveloped land | 226,931 | 226,987 |
| | 7,617,686 | 7,348,448 |
| Accumulated depreciation | (1,251,610) | (1,193,905) |
| Net real estate investments | 6,366,076 | 6,154,543 |
| Real estate investments and other assets held-for-sale | — | 17,550 |
| Cash and cash equivalents | 86,339 | 67,562 |
| Accounts receivable, net of allowance of \$1,445 and \$1,709 | 19,728 | 19,427 |
| Straight-line rent receivable, net of allowance of \$4,653 and \$5,254 | 96,749 | 93,005 |
| Receivables on construction contracts, including retentions | 13,442 | 13,480 |
| Deferred leasing and other costs, net of accumulated amortization of \$210,243 and \$209,451 | 313,061 | 292,682 |
| Restricted cash held in escrow for like-kind exchange | 146,110 | 116,405 |
| Notes receivable from property sales | 276,766 | 426,657 |
| Other escrow deposits and other assets | 184,547 | 186,885 |
| | \$ 7,502,818 | \$ 7,388,196 |
| LIABILITIES AND EQUITY | | |
| Indebtedness: | | |
| Secured debt, net of deferred financing costs of \$444 and \$614 | \$ 305,923 | \$ 311,349 |
| Unsecured debt, net of deferred financing costs of \$19,214 and \$20,500 | 2,111,506 | 2,111,542 |
| | 2,417,429 | 2,422,891 |
| Liabilities related to real estate investments held-for-sale | — | 1,163 |
| Construction payables and amounts due subcontractors, including retentions | 93,515 | 54,545 |
| Accrued real estate taxes | 75,768 | 67,374 |
| Accrued interest | 17,774 | 17,911 |
| Other liabilities | 147,800 | 210,825 |
| Tenant security deposits and prepaid rents | 41,562 | 39,109 |
| Total liabilities | 2,793,848 | 2,813,818 |
| Partners' equity: | | |
| Common equity (357,166 and 356,361 General Partner Units issued and outstanding, respectively) | 4,660,492 | 4,532,844 |
| Limited Partners' common equity (3,302 and 3,283 Limited Partner Units issued and outstanding, respectively) | 47,503 | 40,563 |
| Total partners' equity | 4,707,995 | 4,573,407 |
| Noncontrolling interests | 975 | 971 |
| Total equity | 4,708,970 | 4,574,378 |
| | \$ 7,502,818 | \$ 7,388,196 |

See accompanying Notes to Consolidated Financial Statements

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

| | Three Months Ended | | Six Months Ended | |
|--|---------------------------|-------------|-------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues: | | | | |
| Rental and related revenue | \$192,093 | \$165,836 | \$385,549 | \$337,512 |
| General contractor and service fee revenue | 18,465 | 23,576 | 59,566 | 32,975 |
| | 210,558 | 189,412 | 445,115 | 370,487 |
| Expenses: | | | | |
| Rental expenses | 16,769 | 14,506 | 37,165 | 30,743 |
| Real estate taxes | 31,196 | 26,902 | 62,342 | 53,412 |
| General contractor and other services expenses | 15,253 | 22,374 | 55,662 | 29,998 |
| Depreciation and amortization | 75,832 | 67,013 | 153,361 | 129,036 |
| | 139,050 | 130,795 | 308,530 | 243,189 |
| Other operating activities: | | | | |
| Equity in earnings of unconsolidated joint ventures | 1,682 | 51,933 | 9,969 | 56,682 |
| Promote income | — | 20,007 | — | 20,007 |
| Gain on sale of properties | 149,962 | 34,341 | 194,848 | 71,387 |
| Gain on land sales | 357 | 1,279 | 3,306 | 2,784 |
| Other operating expenses | (1,137) | (718) | (1,923) | (1,457) |
| Impairment charges | — | — | — | (859) |
| General and administrative expenses | (13,459) | (11,858) | (34,482) | (31,090) |
| | 137,405 | 94,984 | 171,718 | 117,454 |
| Operating income | 208,913 | 153,601 | 308,303 | 244,752 |
| Other income (expenses): | | | | |
| Interest and other income, net | 4,727 | 2,260 | 9,190 | 2,792 |
| Interest expense | (20,675) | (21,680) | (40,675) | (44,566) |
| Loss on debt extinguishment | (151) | (9,561) | (151) | (9,536) |
| Income from continuing operations before income taxes | 192,814 | 124,620 | 276,667 | 193,442 |
| Income tax expense | (63) | (5,426) | (10,392) | (7,557) |
| Income from continuing operations | 192,751 | 119,194 | 266,275 | 185,885 |
| Discontinued operations: | | | | |
| Income before gain on sales and income taxes | 31 | 11,095 | 23 | 15,185 |
| Gain on sale of depreciable properties | 2,889 | 1,109,091 | 3,021 | 1,109,091 |
| Income tax expense | — | (11,613) | — | (11,613) |
| Income from discontinued operations | 2,920 | 1,108,573 | 3,044 | 1,112,663 |
| Net income | 195,671 | 1,227,767 | 269,319 | 1,298,548 |
| Net income attributable to noncontrolling interests | (2) | (5,984) | (4) | (5,913) |
| Net income attributable to common unitholders | \$195,669 | \$1,221,783 | \$269,315 | \$1,292,635 |
| Basic net income per Common Unit: | | | | |
| Continuing operations attributable to common unitholders | \$0.53 | \$0.33 | \$0.74 | \$0.52 |
| Discontinued operations attributable to common unitholders | 0.01 | 3.07 | 0.01 | 3.08 |
| Total | \$0.54 | \$3.40 | \$0.75 | \$3.60 |
| Diluted net income per Common Unit: | | | | |
| Continuing operations attributable to common unitholders | \$0.53 | \$0.33 | \$0.73 | \$0.51 |
| Discontinued operations attributable to common unitholders | 0.01 | 3.05 | 0.01 | 3.06 |
| Total | \$0.54 | \$3.38 | \$0.74 | \$3.57 |

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| | | | | |
|---|------------------|-------------|------------------|-------------|
| Weighted average number of Common Units outstanding | 360,447 | 358,952 | 360,272 | 358,776 |
| Weighted average number of Common Units and potential dilutive securities | 362,741 | 361,981 | 362,551 | 361,789 |
| Comprehensive income: | | | | |
| Net income | \$195,671 | \$1,227,767 | \$269,319 | \$1,298,548 |
| Other comprehensive loss: | | | | |
| Amortization of interest contracts | — | (426) | — | (682) |
| Comprehensive income | \$195,671 | \$1,227,341 | \$269,319 | \$1,297,866 |

See accompanying Notes to Consolidated Financial Statements

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

| | 2018 | 2017 |
|---|------------------|-------------|
| Cash flows from operating activities: | | |
| Net income | \$269,319 | \$1,298,548 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation of buildings and tenant improvements | 126,039 | 124,883 |
| Amortization of deferred leasing and other costs | 27,322 | 30,002 |
| Amortization of deferred financing costs | 2,840 | 2,672 |
| Straight-line rental income and expense, net | (10,931) | (7,722) |
| Impairment charges | — | 859 |
| Loss on debt extinguishment | 151 | 9,536 |
| Gains on land and depreciated property sales | (201,175) | (1,183,262) |
| Third-party construction contracts, net | (5,122) | (1,945) |
| Other accrued revenues and expenses, net | 24,760 | 4,068 |
| Equity in earnings in excess of operating distributions received from unconsolidated joint ventures | (2,585) | (46,303) |
| Net cash provided by operating activities | 230,618 | 231,336 |
| Cash flows from investing activities: | | |
| Development of real estate investments | (227,186) | (288,833) |
| Acquisition of real estate investments and related intangible assets | (208,914) | (237,472) |
| Acquisition of undeveloped land | (98,486) | (67,923) |
| Second generation tenant improvements, leasing costs and building improvements | (26,337) | (20,112) |
| Other deferred leasing costs | (20,787) | (16,091) |
| Other assets | 145,300 | 18,648 |
| Proceeds from land and depreciated property sales, net | 433,551 | 1,977,127 |
| Capital distributions from unconsolidated joint ventures | 17,439 | 111,557 |
| Capital contributions and advances to unconsolidated joint ventures | (2,617) | (2,039) |
| Net cash provided by investing activities | 11,963 | 1,474,862 |
| Cash flows from financing activities: | | |
| Contributions from the General Partner | 1,376 | 3,690 |
| Payments on unsecured debt | (1,322) | (545,924) |
| Payments on secured indebtedness including principal amortization | (5,708) | (46,123) |
| Borrowings on line of credit, net | — | (48,000) |
| Distributions to common unitholders | (144,168) | (136,388) |
| Distributions to noncontrolling interests | — | (41) |
| Tax payments on stock-based compensation awards | (8,128) | (9,003) |
| Change in book cash overdrafts | (35,331) | (13,470) |
| Deferred financing costs | (285) | (8) |
| Net cash used for financing activities | (193,566) | (795,267) |
| Net increase in cash, cash equivalents and restricted cash | 49,015 | 910,931 |
| Cash, cash equivalents and restricted cash at beginning of period | 193,627 | 57,038 |
| Cash, cash equivalents and restricted cash at end of period | \$242,642 | \$967,969 |
| Non-cash investing and financing activities: | | |
| Carrying amount of pre-existing ownership interest in acquired property | \$5,034 | \$— |
| Notes receivable from buyers in property sales | \$— | \$400,000 |
| Conversion of Limited Partner Units to common shares of the General Partner | \$1,938 | \$1,683 |

See accompanying Notes to Consolidated Financial Statements

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

| | Common Unitholders | | | | Total Equity |
|--|--|--|------------------------------|-----------------------------|--------------------|
| | General Partner's Common Equity | Limited Partners' Common Equity | Total Partners' Equity | Noncontrolling Interests | |
| Balance at December 31, 2017 | \$4,532,844 | \$40,563 | \$4,573,407 | \$ 971 | \$4,574,378 |
| Net income | 266,808 | 2,507 | 269,315 | 4 | 269,319 |
| Capital contribution from the General Partner | 1,376 | — | 1,376 | — | 1,376 |
| Stock-based compensation plan activity | 333 | 7,732 | 8,065 | — | 8,065 |
| Conversion of Limited Partner Units | 1,938 | (1,938) | — | — | — |
| Distributions to common unitholders (\$0.40 per Common Unit) | (142,807) | (1,361) | (144,168) | — | (144,168) |
| Balance at June 30, 2018 | \$4,660,492 | \$47,503 | \$4,707,995 | \$ 975 | \$4,708,970 |

See accompanying Notes to Consolidated Financial Statements

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

1. General Basis of Presentation

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

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

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

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

As of June 30, 2018, we owned and operated a portfolio primarily consisting of industrial properties and provided real estate services to third-party owners. Substantially all of our Rental Operations (see Note 9) are conducted through the Partnership. We conduct our Service Operations (see Note 9) through Duke Realty Services, LLC, Duke Realty Services Limited Partnership and Duke Construction Limited Partnership ("DCLP"), which are consolidated entities that are 100% owned by a combination of the General Partner and the Partnership. DCLP is owned through a taxable REIT subsidiary. The consolidated financial statements include our accounts and the accounts of our majority-owned or controlled subsidiaries.

2. New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

Revenue Recognition and De-recognition of Non-Financial Assets

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

General Contractor and Service Fee Revenue

Beginning with the January 1, 2018 adoption date, general contractor and service fee revenues, as presented on the Consolidated Statements of Operations, are accounted for within the scope of ASC 606. General contractor and service fee revenues are comprised primarily of construction and development related revenues earned from third parties while acting in capacity of a developer, as a general contractor or a construction manager. There are other ancillary streams of revenue included in general contractor and service fee revenues (see Note 9), such as management fees earned from unconsolidated joint ventures, which are not significant. Opening and closing balances of construction receivables are presented separately on the Consolidated Balance Sheets. Over billed construction receivables totaled \$902,000 and \$276,000 at June 30, 2018 and December 31, 2017, respectively. We generally do not have any contract assets associated with our construction arrangements.

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

De-Recognition of Non-Financial Assets

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

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

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

Restricted Cash

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

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

| | June 30, | December 31, |
|--|------------------|--------------|
| | 2018 | 2017 |
| Cash and cash equivalents | \$86,339 | \$ 67,562 |
| Restricted cash held in escrow for like-kind exchange | 146,110 | 116,405 |
| Restricted cash included in other escrow deposits and other assets | 10,193 | 9,660 |
| Total cash, cash equivalents, and restricted cash shown in the Consolidated Statements of Cash Flows | \$242,642 | \$ 193,627 |

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

Statement of Cash Flows

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

New Accounting Pronouncement Not Yet Adopted

Leases

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

For lessors, the accounting under ASU 2016-02 will remain largely unchanged from current GAAP; however ASU 2016-02 requires that lessors expense certain initial direct costs, which are capitalizable under existing leasing standards, as incurred. ASU 2016-02 also specifies that payments for certain lease-related services, which are often included in lease agreements, represent "non-lease" components that will become subject to the guidance in ASC 606, when ASU 2016-02 becomes effective. The FASB recently clarified that only new or modified leases subsequent to adoption of ASU 2016-02 will require different accounting for "non-lease" components under the guidance in ASC 606. Additionally, on March 28, 2018 the FASB tentatively approved amendments to ASU

2016-02 (the "Approved Amendments"), which, if ultimately finalized as an amendment to ASU 2016-02, will allow lessors an optional election to not separate "non-lease" components from the related lease components. This election would be contingent upon certain conditions being met, including a requirement that separating the "non-lease" components would not result in a change in the timing and pattern of the revenue recognition.

ASU 2016-02 requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of classification. ASU 2016-02 will impact the accounting and disclosure requirements for ground leases, and other operating leases, where we are the lessee. ASU 2016-02 will be effective for us on January 1, 2019 under the modified retrospective approach, with early adoption permitted.

A set of practical expedients for implementation, which must be elected as a package and for all leases, may also be elected. These practical expedients include (i) relief from re-assessing whether an expired or existing contract meets the definition of a lease, (ii) relief from re-assessing the classification of expired or existing leases at the adoption date and (iii) allowing previously capitalized initial direct leasing costs to continue to be amortized. In addition to these practical expedients, the Approved Amendments also include an option that would allow lessors to use the effective date of ASU 2016-02 as the date of initial application, without restating comparative periods, and to recognize a cumulative effect adjustment as of the effective date. We are currently assessing the method of adoption and the impact that ASU 2016-02 will have on our consolidated financial statements but have tentatively concluded that we will apply the practical expedients as well as the optional relief provided by the Approved Amendments, should they be finalized.

3. Reclassifications

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

4. Variable Interest Entities

Partnership

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

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

Unconsolidated Joint Ventures

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

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

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

There were no unconsolidated joint ventures, in which we have any recognized assets or liabilities or have retained any economic exposure to loss at June 30, 2018, that met the criteria to be considered VIEs. Our maximum loss exposure for guarantees of unconsolidated joint venture indebtedness, none of which relate to VIEs, totaled \$115.0 million at June 30, 2018.

5. Acquisitions and Dispositions

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

Acquisitions

We paid cash of \$208.9 million and \$237.5 million for asset acquisitions during the six months ended June 30, 2018 and 2017, respectively.

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

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

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

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

Fair Value Measurements

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

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

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

Dispositions

Dispositions of buildings and undeveloped land generated net cash proceeds of \$433.6 million and \$1.98 billion during the six months ended June 30, 2018 and 2017, respectively. Additionally, during the six months ended June 30, 2018, we collected \$149.9 million of principal on notes receivable primarily related to the sale of our medical office properties during 2017, which is reflected within Other Assets within the Consolidated Statements of Cash Flows. The number of buildings sold, as well as their classification between continuing and discontinued operations, is disclosed in Note 10.

6. Indebtedness

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

| | Book Value at 12/31/2017 | Book Value at 6/30/2018 | Fair Value at 12/31/2017 | Payments/Payoffs | Adjustments to Fair Value | Fair Value at 6/30/2018 |
|---|---|--|---|-------------------------|--------------------------------------|--|
| Fixed rate secured debt | \$309,463 | \$303,867 | \$325,753 | \$ (5,557) | \$ (3,638) | \$316,558 |
| Variable rate secured debt | 2,500 | 2,500 | 2,500 | — | — | 2,500 |
| Unsecured debt | 2,132,042 | 2,130,720 | 2,190,548 | (1,322) | (85,261) | 2,103,965 |
| Total | \$2,444,005 | \$2,437,087 | \$2,518,801 | \$ (6,879) | \$ (88,899) | \$2,423,023 |
| Less: Deferred financing costs | 21,114 | 19,658 | | | | |
| Total indebtedness as reported on the consolidated balance sheets | \$2,422,891 | \$2,417,429 | | | | |

Secured Debt

Because our fixed rate secured debt is not actively traded in any marketplace, we utilized a discounted cash flow methodology to determine its fair value. Accordingly, we calculated fair value by applying an estimate of the current market rate to discount the debt's remaining contractual cash flows. Our estimate of a current market rate, which is the most significant input in the discounted cash flow calculation, is intended to replicate debt of similar maturity and loan-to-value relationship. The estimated rates ranged from 3.90% to 4.20%, 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.

During the six months ended June 30, 2018, we paid \$3.2 million on fixed rate secured loans, which had a weighted average stated interest rate of 7.43%.

Unsecured Debt

At June 30, 2018, all of our unsecured debt bore interest at fixed rates and primarily consisted of unsecured notes that are publicly traded. We utilized broker estimates in estimating the fair value of our fixed rate unsecured debt. Our unsecured notes are thinly traded and, in certain cases, the broker estimates were not based upon comparable transactions. The broker estimates took into account any recent trades within the same series of our fixed rate unsecured debt, comparisons to recent trades of other series of our fixed rate unsecured debt, trades of fixed rate unsecured debt from companies with profiles similar to ours, as well as overall economic conditions. We reviewed these broker estimates for reasonableness and accuracy, considering whether the estimates were based upon market participant assumptions within the principal and most advantageous market and whether any other observable inputs would be more accurate indicators of fair value than the broker estimates. We concluded that the broker estimates were representative of fair value. We have determined that our estimation of the fair value of our fixed rate unsecured debt was primarily based upon level 3 inputs. The estimated trading values of our fixed rate unsecured debt, depending on the maturity and coupon rates, ranged from 93.00% to 121.00% of face value.

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

Unsecured Line of Credit

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

| Description | Borrowing Capacity | Maturity Date | Outstanding Balance at June 30, 2018 |
|--|--------------------|------------------|--------------------------------------|
| Unsecured Line of Credit - Partnership | \$ 1,200,000 | January 30, 2022 | \$ — |

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

This line of credit contains financial covenants that require us to meet certain financial ratios and defined levels of performance, including those related to fixed charge coverage, unsecured interest expense coverage and debt-to-asset value (with asset value being defined in the Partnership's unsecured line of credit agreement). At June 30, 2018, we were in compliance with all financial covenants under this line of credit.

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

7. Related Party Transactions

We provide property management, asset management, leasing, construction and other tenant-related services to unconsolidated joint ventures in which we have equity interests. We recorded the corresponding fees based on contractual terms that approximate market rates for these types of services and have eliminated our ownership

percentage of these fees in the consolidated financial statements. The following table summarizes the fees earned from these joint ventures, prior to the elimination of our ownership percentage (in thousands):

| | Three Months Ended | | Six Months Ended | |
|-----------------------------------|---------------------------|-------------|-------------------------|-------------|
| | June 30, | | June 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| Management fees | \$455 | \$718 | \$897 | \$1,529 |
| Leasing fees | 890 | 80 | 1,192 | 514 |
| Construction and development fees | 978 | 1,062 | 1,675 | 1,685 |

8. Net Income per Common Share or Common Unit

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

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

| | Three Months Ended | | Six Months Ended | |
|--|---------------------------|-------------|-------------------------|-------------|
| | June 30, | | June 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| <u>General Partner</u> | | | | |
| Net income attributable to common shareholders | \$193,845 | \$1,210,543 | \$266,808 | \$1,280,743 |
| Less: dividends on participating securities | (418) | (540) | (855) | (1,083) |
| Basic net income attributable to common shareholders | 193,427 | 1,210,003 | 265,953 | 1,279,660 |
| Add back dividends on dilutive participating securities | 418 | 540 | 855 | 1,083 |
| Noncontrolling interest in earnings of common unitholders | 1,824 | 11,240 | 2,507 | 11,892 |
| Diluted net income attributable to common shareholders | \$195,669 | \$1,221,783 | \$269,315 | \$1,292,635 |
| Weighted average number of common shares outstanding | 357,054 | 355,647 | 356,898 | 355,466 |
| Weighted average Limited Partner Units outstanding | 3,393 | 3,305 | 3,374 | 3,310 |
| Other potential dilutive shares | 2,294 | 3,029 | 2,279 | 3,013 |
| Weighted average number of common shares and potential dilutive securities | 362,741 | 361,981 | 362,551 | 361,789 |
| <u>Partnership</u> | | | | |
| Net income attributable to common unitholders | \$195,669 | \$1,221,783 | \$269,315 | \$1,292,635 |
| Less: distributions on participating securities | (418) | (540) | (855) | (1,083) |
| Basic net income attributable to common unitholders | \$195,251 | \$1,221,243 | \$268,460 | \$1,291,552 |
| Add back distributions on dilutive participating securities | 418 | 540 | 855 | 1,083 |
| Diluted net income attributable to common unitholders | \$195,669 | \$1,221,783 | \$269,315 | \$1,292,635 |
| Weighted average number of Common Units outstanding | 360,447 | 358,952 | 360,272 | 358,776 |
| Other potential dilutive units | 2,294 | 3,029 | 2,279 | 3,013 |
| Weighted average number of Common Units and potential dilutive securities | 362,741 | 361,981 | 362,551 | 361,789 |

The following table summarizes the data that is excluded from the computation of net income per common share or Common Unit as a result of being anti-dilutive, of which there was none for the periods presented, (in thousands):

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| | Three Months Ended June 30, 2018 | 2017 | Six Months Ended June 30, 2018 | 2017 |
|--|--|------|---|------|
|--|--|------|---|------|

General Partner and Partnership

Other potential dilutive shares or units:

| | | | | |
|---|---|---|---|---|
| Anti-dilutive outstanding potential shares or units under fixed stock option and other stock-based compensation plans | — | — | — | — |
| Anti-dilutive outstanding participating securities | — | — | — | — |

9. Segment Reporting

Reportable Segments

During the year ended December 31, 2017, we completed the disposition of our medical office portfolio (the "Medical Office Portfolio Disposition"), which resulted in all of our in-service medical office properties being classified within discontinued operations, with the exception of a property that did not meet the criteria for classification as held-for-sale at June 30, 2018. As a result of this transaction, beginning the second quarter of 2017, our medical office properties were no longer presented as a separate reportable segment, with substantially all such operating results being classified within discontinued operations. The remaining medical office property included in continuing operations no longer meets the quantitative thresholds for separate presentation, and is classified as part of our non-reportable Rental Operations. Properties that are not included in our reportable segments, because they do not by themselves meet the quantitative thresholds for separate presentation as a reportable segment, are generally referred to as non-reportable Rental Operations. Our non-reportable Rental Operations primarily include our remaining office properties and medical office property at June 30, 2018.

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

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

Revenues by Reportable Segment

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--|-----------|--------------------------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues | | | | |
| Rental Operations: | | | | |
| Industrial | \$190,629 | \$162,559 | \$379,944 | \$319,441 |
| Non-reportable Rental Operations | 1,366 | 3,182 | 4,819 | 17,598 |
| Service Operations | 18,465 | 23,576 | 59,566 | 32,975 |
| Total segment revenues | 210,460 | 189,317 | 444,329 | 370,014 |
| Other revenue | 98 | 95 | 786 | 473 |
| Consolidated revenue from continuing operations | 210,558 | 189,412 | 445,115 | 370,487 |
| Discontinued operations | 27 | 35,165 | 32 | 81,404 |
| Consolidated revenue | \$210,585 | \$224,577 | \$445,147 | \$451,891 |

Supplemental Performance Measure

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

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

The following table shows a reconciliation of our segment-level measures of profitability to consolidated income from continuing operations before income taxes (in thousands and excluding discontinued operations):

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| | Three Months Ended | | Six Months Ended | |
|--|---------------------------|-----------|-------------------------|------------|
| | June 30, | | June 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| PNOI | | | | |
| Industrial | \$137,394 | \$116,466 | \$266,627 | \$226,937 |
| Non-reportable Rental Operations | 844 | 685 | 1,765 | 2,493 |
| PNOI, excluding all sold properties | 138,238 | 117,151 | 268,392 | 229,430 |
| PNOI from sold properties included in continuing operations | 2,164 | 5,439 | 7,925 | 12,629 |
| PNOI, continuing operations | \$140,402 | \$122,590 | \$276,317 | \$242,059 |
| | | | | |
| Earnings from Service Operations | 3,212 | 1,202 | 3,904 | 2,977 |
| | | | | |
| Rental Operations revenues and expenses excluded from PNOI: | | | | |
| Straight-line rental income and expense, net | 4,642 | 3,628 | 10,931 | 5,205 |
| Revenues related to lease buyouts | — | 72 | 23 | 9,857 |
| Amortization of lease concessions and above and below market rents | 461 | (566) | 1,006 | (1,450) |
| Intercompany rents and other adjusting items | (20) | (310) | (6) | (745) |
| | | | | |
| Non-Segment Items: | | | | |
| Equity in earnings of unconsolidated joint ventures | 1,682 | 51,933 | 9,969 | 56,682 |
| Promote income | — | 20,007 | — | 20,007 |
| Interest expense | (20,675) | (21,680) | (40,675) | (44,566) |
| Depreciation and amortization expense | (75,832) | (67,013) | (153,361) | (129,036) |
| Gain on sale of properties | 149,962 | 34,341 | 194,848 | 71,387 |
| Impairment charges | — | — | — | (859) |
| Interest and other income, net | 4,727 | 2,260 | 9,190 | 2,792 |
| General and administrative expenses | (13,459) | (11,858) | (34,482) | (31,090) |
| Gain on land sales | 357 | 1,279 | 3,306 | 2,784 |
| Other operating expenses | (1,137) | (718) | (1,923) | (1,457) |
| Loss on extinguishment of debt | (151) | (9,561) | (151) | (9,536) |
| Other non-segment revenues and expenses, net | (1,357) | (986) | (2,229) | (1,569) |
| Income from continuing operations before income taxes | \$192,814 | \$124,620 | \$276,667 | \$193,442 |

The most comparable GAAP measure to PNOI is income from continuing operations before income taxes. PNOI excludes expenses that materially impact our overall results of operations and, therefore, should not be considered as a substitute for income from continuing operations before income taxes or any other measures derived in accordance with GAAP. Furthermore, PNOI may not be comparable to other similarly titled measures of other companies.

10. Real Estate Assets, Discontinued Operations and Assets Held-for-Sale

Real Estate Assets

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

| | June 30, | December 31, |
|-----------------------------------|--------------------|--------------|
| | 2018 | 2017 |
| Buildings and tenant improvements | \$4,712,182 | \$4,642,832 |
| Land and improvements | 2,073,309 | 1,950,735 |
| Real estate assets | \$6,785,491 | \$6,593,567 |

Discontinued Operations

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

| | Held-for-Sale at June 30, 2018 | Sold Year-to-Date in 2018 | Sold in 2017 | Total |
|--|--------------------------------|---------------------------|--------------|-------|
| Total properties included in discontinued operations | — | — | 81 | 81 |
| Properties excluded from discontinued operations | — | 13 | 17 | 30 |
| Total properties sold or classified as held-for-sale | — | 13 | 98 | 111 |

For the properties that were classified in discontinued operations during 2017, we allocated interest expense to discontinued operations and have included such interest expense in computing income from discontinued operations. Interest expense allocable to discontinued operations was based upon an allocable share of our consolidated unsecured interest expense, as none of the properties included in discontinued operations were encumbered by secured debt. 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. There were no additional properties classified as discontinued operations during the six months ended June 30, 2018 and, as such, no interest expense was allocated to discontinued operations during that period.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|-------------|---------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues | \$27 | \$35,165 | \$32 | \$81,404 |
| Operating expenses | 4 | (11,170) | (9) | (26,166) |
| Depreciation and amortization | — | (6,315) | — | (25,849) |
| Operating income | 31 | 17,680 | 23 | 29,389 |
| Interest expense | — | (6,585) | — | (14,204) |
| Income before gain on sales and income taxes | 31 | 11,095 | 23 | 15,185 |
| Gain on sale of depreciable properties | 2,889 | 1,109,091 | 3,021 | 1,109,091 |
| Income from discontinued operations before income taxes | 2,920 | 1,120,186 | 3,044 | 1,124,276 |
| Income tax expense | — | (11,613) | — | (11,613) |
| Income from discontinued operations | \$2,920 | \$1,108,573 | \$3,044 | \$1,112,663 |

There were no capital expenditures for properties within discontinued operations during the six months ended June 30, 2018. Capital expenditures on a cash basis for the six months ended June 30, 2017 were \$20.6 million for properties within discontinued operations.

Allocation of Noncontrolling Interests - General Partner

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|-------------|---------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Income from continuing operations attributable to common shareholders | \$190,952 | \$118,194 | \$263,792 | \$184,362 |
| Income from discontinued operations attributable to common shareholders | 2,893 | 1,092,349 | 3,016 | 1,096,381 |
| Net income attributable to common shareholders | \$193,845 | \$1,210,543 | \$266,808 | \$1,280,743 |

Allocation of Noncontrolling Interests - Partnership

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

Assets Held-for-Sale

At June 30, 2018, no in-service properties or undeveloped land were classified as held-for-sale. The following table illustrates aggregate balance sheet information for all properties and land held-for-sale (in thousands):

| | Held-for-Sale Properties Included in Continuing Operations June 30, December 31, 2017 2018 |
|---------------------------------------|---|
| Land and improvements | \$— 8,157 |
| Buildings and tenant improvements | — 10,505 |
| Undeveloped land | — — |
| Accumulated depreciation | — (2,553) |
| Deferred leasing and other costs, net | — 862 |
| Other assets | — 579 |
| Total assets held-for-sale | \$— 17,550 |

Total liabilities related to assets held-for-sale \$— 1,163

11. Subsequent Events

Declaration of Dividends/Distributions

The General Partner's board of directors declared the following dividends/distributions at its regularly scheduled board meeting held on July 20, 2018:

| Class of stock/units | Quarterly Amount per Share or Unit | Record Date | Payment Date |
|-----------------------------|---|--------------------|---------------------|
| Common - Quarterly | \$0.20 | August 16, 2018 | August 31, 2018 |

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 Report, and the consolidated financial statements and notes thereto contained in Part IV, Item 15 of our 2017 Annual Report.

Cautionary Notice Regarding Forward-Looking Statements

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

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

• Changes in general economic and business conditions, including the financial condition of our tenants and the value of our real estate assets;

• The General Partner's continued qualification as a REIT for U.S. federal income tax purposes;

• Heightened competition for tenants and potential decreases in property occupancy;

• Potential changes in the financial markets and interest rates;

• Volatility in the General Partner's stock price and trading volume;

• Our continuing ability to raise funds on favorable terms, or at all;

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

• Potential increases in real estate construction costs;

• Our ability to successfully dispose of properties on terms that are favorable to us, including, without limitation, through one or more transactions that are consistent with our previously disclosed strategic plans;

• Our ability to successfully integrate our acquired properties;

• Our ability to retain our current credit ratings;

• Inherent risks in the real estate business, including, but not limited to, tenant defaults, potential liability relating to environmental matters and liquidity of real estate investments; and

• Other risks and uncertainties described herein, as well as those risks and uncertainties discussed from time to time in our other reports and other public filings with the Securities and Exchange Commission (the "SEC").

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

The above list of risks and uncertainties is only a summary of some of the most important factors and is not intended to be exhaustive. Additional information regarding risk factors that may affect us is included in our 2017

Annual Report and in Part II, Item 1A "Risk Factors" in this Report. The risk factors contained in our Annual Report are updated by us from time to time in Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other filings that we make with the SEC.

Business Overview

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

The General Partner is a self-administered and self-managed REIT that began operations in 1986 and is the sole general partner of the Partnership. The Partnership is a limited partnership formed in 1993, at which time all of the properties and related assets and liabilities of the General Partner, as well as proceeds from a secondary offering of the General Partner's common shares, were contributed to the Partnership. Simultaneously, the Partnership completed the acquisition of Duke Associates, a full-service commercial real estate firm operating in the Midwest whose operations began in 1972. We operate the General Partner and the Partnership as one enterprise, and therefore, our discussion and analysis refers to the General Partner and its consolidated subsidiaries, including the Partnership, collectively. A more complete description of our business, and of management's philosophy and priorities, is included in our 2017 Annual Report.

At June 30, 2018, we:

Owned or jointly controlled 517 primarily industrial properties, of which 491 properties with 138.9 million square feet were in service and 26 properties with 12.3 million square feet were under development. The 491 in-service properties were comprised of 450 consolidated properties with 127.4 million square feet and 41 jointly controlled unconsolidated properties with 11.5 million square feet. The 26 properties under development consisted of 23 consolidated properties with 11.7 million square feet and three jointly controlled unconsolidated properties with 684,000 square feet.

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

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

As of June 30, 2018, we had two reportable operating segments, the first consisting of the ownership and rental of industrial real estate investments. The operations of our industrial properties, as well as our non-reportable Rental Operations, are collectively referred to as "Rental Operations." Our second reportable segment consists of various real estate services such as property management, asset management, maintenance, leasing, development, general contracting and construction management to third-party property owners and joint ventures, and is collectively referred to as "Service Operations." Our reportable segments are managed separately because each segment requires different operating strategies and management expertise. Our Service Operations segment also includes our taxable REIT subsidiary, a legal entity through which certain of the segment's aforementioned operations are conducted.

Key Performance Indicators

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

Occupancy Analysis

Our ability to maintain high occupancy rates is a principal driver of maintaining and increasing rental revenue. The following table sets forth percent leased and average net effective rent information regarding our in-service portfolio of rental properties, including properties classified within both continuing and discontinued operations, at June 30, 2018 and 2017, respectively:

| Type | Total Square Feet (in thousands) | | Percent of Total Square Feet | | Percent Leased* | | Average Annual Net Effective Rent** | |
|---|-------------------------------------|---------|---------------------------------|-------|-----------------|------|--|---------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Industrial | 127,024 | 116,858 | 99.7 | 98.4 | 97.6 | 96.5 | \$4.61 | \$4.23 |
| Non-reportable Rental Operations | 399 | 1,856 | 0.3 | 1.6 | 58.9 | 81.3 | \$19.84 | \$20.63 |
| Total Consolidated | 127,423 | 118,714 | 100.0 | 100.0 | 97.5 | 96.2 | \$4.64 | \$4.45 |
| Unconsolidated Joint Ventures | 11,467 | 10,759 | | | 93.8 | 89.3 | \$4.14 | \$4.18 |
| Total Including Unconsolidated Joint Ventures | 138,890 | 129,473 | | | 97.2 | 95.6 | | |

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

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

The increased occupancy within our industrial portfolio at June 30, 2018, compared to June 30, 2017, resulted from the lease ups of new speculative developments being placed in service or acquired from third parties.

Vacancy Activity

The following table sets forth vacancy activity, shown in square feet, from our in-service rental properties included within both continuing and discontinued operations, at June 30, 2018 (in thousands):

| | Consolidated Properties | Unconsolidated Joint Venture Properties | Total Including Unconsolidated Joint Venture Properties |
|---|------------------------------------|--|--|
| Vacant square feet at December 31, 2017 | 4,992 | 1,219 | 6,211 |
| Vacant space in completed developments | 189 | — | 189 |
| Dispositions | (204) | — | (204) |
| Expirations | 2,724 | 174 | 2,898 |
| Early lease terminations | 157 | — | 157 |
| Leasing of previously vacant space | (4,670) | (678) | (5,348) |
| Vacant square feet at June 30, 2018 | 3,188 | 715 | 3,903 |

Total Leasing Activity

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--|-------|--|--------|
| | 2018 | 2017 | 2018 | 2017 |
| New Leasing Activity - First Generation Industrial | 3,160 | 502 | 5,680 | 2,938 |
| New Leasing Activity - Second Generation Industrial | 690 | 1,036 | 3,323 | 2,132 |
| Renewal Leasing Activity - Industrial | 2,035 | 2,534 | 3,512 | 3,791 |
| Non-reportable Rental Operations Leasing Activity | 4 | 50 | 4 | 224 |
| Total Consolidated Leasing Activity | 5,889 | 4,122 | 12,519 | 9,085 |
| Unconsolidated Joint Venture Leasing Activity | 1,904 | 933 | 2,224 | 1,596 |
| Total Including Unconsolidated Joint Venture Leasing Activity | 7,793 | 5,055 | 14,743 | 10,681 |

Second Generation Leases

The following table sets forth the estimated costs of tenant improvements and leasing commissions, on a per square foot basis, that we are obligated to fulfill under the second generation industrial leases signed for our rental properties included within both continuing and discontinued operations, during the three and six months ended June 30, 2018 and 2017:

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| | Square Feet of Leases (in thousands) | | Percent of Expiring Leases Renewed | | Average Term in Years | | Estimated Tenant Improvement Cost per Square Foot | | Leasing Commissions per Square Foot | |
|---|--------------------------------------|-------|------------------------------------|-------|-----------------------|------|---|--------|-------------------------------------|--------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Three Months | | | | | | | | | | |
| Consolidated - New Second Generation | 690 | 1,036 | | | 4.0 | 5.6 | \$1.13 | \$2.06 | \$1.59 | \$2.10 |
| Unconsolidated Joint Ventures - New Second Generation | 50 | 108 | | | 5.0 | 7.2 | \$0.95 | \$0.25 | \$1.61 | \$1.94 |
| Total - New Second Generation | 740 | 1,144 | | | 4.1 | 5.7 | \$1.12 | \$1.89 | \$1.60 | \$2.09 |
| Consolidated - Renewal | 2,035 | 2,534 | 77.3% | 75.8% | 4.3 | 5.1 | \$0.93 | \$0.30 | \$1.15 | \$1.34 |
| Unconsolidated Joint Ventures - Renewal | 50 | 324 | 31.1% | 61.3% | 6.0 | 4.8 | \$1.02 | \$0.33 | \$1.96 | \$1.43 |
| Total - Renewal | 2,085 | 2,858 | 74.7% | 73.8% | 4.4 | 5.0 | \$0.93 | \$0.30 | \$1.17 | \$1.35 |
| Six Months | | | | | | | | | | |
| Consolidated - Second Generation | 3,323 | 2,132 | | | 6.5 | 5.4 | \$1.55 | \$1.95 | \$1.85 | \$1.71 |
| Unconsolidated Joint Ventures - Second Generation | 178 | 162 | | | 9.2 | 9.7 | \$1.95 | \$0.63 | \$3.05 | \$2.17 |
| Total - Second Generation | 3,501 | 2,294 | | | 6.7 | 5.7 | \$1.57 | \$1.86 | \$1.91 | \$1.74 |
| Consolidated - Renewal | 3,512 | 3,791 | 73.6% | 78.8% | 4.4 | 4.9 | \$1.00 | \$0.44 | \$1.25 | \$1.29 |
| Unconsolidated Joint Ventures - Renewal | 112 | 489 | 39.1% | 65.4% | 6.2 | 4.5 | \$1.15 | \$0.28 | \$2.03 | \$1.37 |
| Total - Renewal | 3,624 | 4,280 | 71.7% | 77.0% | 4.5 | 4.9 | \$1.00 | \$0.42 | \$1.28 | \$1.30 |

Growth in average annual net effective rents for the consolidated new second generation and renewal leases, on a combined basis, was 23.7% and 20.4% for the six months ended June 30, 2018 and 2017, respectively. Growth in net effective rents for the unconsolidated new second generation and renewal leases, on a combined basis, was 33.7% and 22.8% for the six months ended June 30, 2018 and 2017, respectively.

Lease Expirations

The table below reflects our consolidated in-service portfolio lease expiration schedule at June 30, 2018 (in thousands, except percentage data and number of leases):

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| Year of Expiration | Total Consolidated Portfolio | | | Industrial | | Non-reportable | |
|-----------------------------|------------------------------|------------------------|------------------|-------------|------------------------|----------------|------------------------|
| | Square Feet | Annual Rental Revenue* | Number of Leases | Square Feet | Annual Rental Revenue* | Square Feet | Annual Rental Revenue* |
| Remainder of 2018 | 3,800 | \$ 15,371 | 42 | 3,797 | \$ 15,338 | 3 | \$ 33 |
| 2019 | 11,477 | 47,219 | 129 | 11,465 | 47,070 | 12 | 149 |
| 2020 | 14,167 | 63,767 | 147 | 14,162 | 63,700 | 5 | 67 |
| 2021 | 13,301 | 59,443 | 138 | 13,242 | 58,948 | 59 | 495 |
| 2022 | 17,186 | 71,144 | 121 | 17,168 | 70,964 | 18 | 180 |
| 2023 | 10,919 | 53,443 | 116 | 10,905 | 53,257 | 14 | 186 |
| 2024 | 11,249 | 52,553 | 66 | 11,244 | 52,491 | 5 | 62 |
| 2025 | 8,473 | 40,174 | 50 | 8,473 | 40,174 | — | — |
| 2026 | 8,095 | 35,955 | 32 | 8,095 | 35,955 | — | — |
| 2027 | 6,538 | 28,404 | 19 | 6,538 | 28,404 | — | — |
| 2028 and Thereafter | 19,030 | 109,186 | 57 | 18,911 | 105,700 | 119 | 3,486 |
| Total Leased | 124,235 | \$ 576,659 | 917 | 124,000 | \$ 572,001 | 235 | \$ 4,658 |
| Total Portfolio Square Feet | 127,423 | | | 127,024 | | 399 | |
| Percent Leased | 97.5 % | | | 97.6 % | | 58.9 % | |

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

Building Acquisitions

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

We acquired six buildings during the six months ended June 30, 2018, and 28 buildings during the year ended December 31, 2017, one of which was sold as part of the Medical Office Portfolio Disposition. The following table summarizes the acquisition price, percent leased at time of acquisition and in-place yields, by product type, for these acquisitions (in thousands, except percentage data):

| Type | Year-to-Date 2018 Acquisitions | | | | Full Year 2017 Acquisitions | | | |
|----------------------------------|--------------------------------|------------------|-------------------------------|---------|-----------------------------|------------------|-------------------------------|---------|
| | Acquisition Price* | In-Place Yield** | Leased at Acquisition Date*** | Percent | Acquisition Price* | In-Place Yield** | Leased at Acquisition Date*** | Percent |
| Industrial | \$ 209,613 | 4.3 % | 100.0 % | | \$ 980,339 | 2.5 % | 68.5 % | |
| Non-reportable Rental Operations | — | — | — | | 10,829 | 6.1 % | 100.0 % | |
| Total | \$ 209,613 | 4.3 % | 100.0 % | | \$ 991,168 | 2.5 % | 68.8 % | |

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

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

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

Building Dispositions

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

13 consolidated buildings during the six months ended June 30, 2018 and 98 consolidated buildings, including 85 properties sold as part of the Medical Office Portfolio Disposition, during the year ended December 31, 2017. The following table summarizes the sales prices, in-place yields and percent leased, by product type, of these buildings (in thousands, except percentage data):

| Type | Year-to-Date 2018 Dispositions | | | Full Year 2017 Dispositions | | |
|------------|--------------------------------|-----------------|--------------------|-----------------------------|-----------------|--------------------|
| | Sales Price | In-Place Yield* | Percent Occupied** | Sales Price | In-Place Yield* | Percent Occupied** |
| Industrial | \$321,337 | 5.7 % | 96.8 % | \$ 45,192 | | |