DUKE REALTY CORP
Form 10-Q
November 07, 2008

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

(Mark One)

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

For the quarterly period ended September 30, 2008

OR

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

For the transition period from _____ to _____.

Commission File Number: 1-9044

DUKE REALTY CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

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

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

Class	**Outstanding at November 1, 2008**
Common Stock, $.01 par value per share	147,364,620 shares

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

	September 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Real estate investments:		
Land and improvements	**$ 1,028,142**	$ 872,372
Buildings and tenant improvements	**5,069,712**	4,600,408
Construction in progress	**193,206**	412,729
Investments in and advances to unconsolidated companies	**700,637**	601,801
Land held for development	**866,016**	912,448
	7,857,713	7,399,758
Accumulated depreciation	**(1,121,202)**	(951,375)
Net real estate investments	**6,736,511**	6,448,383
Real estate investments and other assets held-for-sale	**197,287**	273,591
Cash and cash equivalents	**3,470**	48,012
Accounts receivable, net of allowance of $2,011 and $1,359	**22,680**	29,009
Straight-line rent receivable, net of allowance of $2,669 and $2,886	**121,469**	110,737
Receivables on construction contracts, including retentions	**92,043**	66,925
Deferred financing costs, net of accumulated amortization of $35,191 and $29,170	**50,929**	55,987
Deferred leasing and other costs, net of accumulated amortization of $182,017 and $150,702	**370,610**	374,635
Escrow deposits and other assets	**247,865**	254,702
	$ 7,842,864	$ 7,661,981
LIABILITIES AND SHAREHOLDERS EQUITY		
Indebtedness:		
Secured debt	**$ 520,034**	$ 524,393
Unsecured notes	**3,346,000**	3,246,000
Unsecured lines of credit	**533,709**	546,067
	4,399,743	4,316,460
Liabilities of properties held-for-sale	**3,546**	8,954

Construction payables and amounts due subcontractors, including retentions	**125,157**	142,655
Accrued expenses:		
Real estate taxes	**100,521**	63,796
Interest	**44,371**	54,631
Other	**39,154**	59,221
Other liabilities	**145,043**	148,013
Tenant security deposits and prepaid rents	**28,082**	34,535
Total liabilities	**4,885,617**	4,828,265
Minority interest	**71,817**	83,683
Shareholders equity:		
Preferred shares ($.01 par value); 5,000 shares authorized; 4,176 and 2,976 shares issued and outstanding	**1,044,000**	744,000
Common shares ($.01 par value); 250,000 shares authorized; 147,110 and 146,175 shares issued and outstanding	**1,471**	1,462
Additional paid-in capital	**2,652,605**	2,632,615
Accumulated other comprehensive income (loss)	**(7,902)**	(1,279)
Distributions in excess of net income	**(804,744)**	(626,765)
Total shareholders equity	**2,885,430**	2,750,033
	$ 7,842,864	$ 7,661,981

See accompanying Notes to Consolidated Financial Statements.

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DUKE REALTY CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
For the Three and Nine Months Ended September 30,
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	2008	2007	**2008**	2007
RENTAL OPERATIONS				
Revenues:				
Rental revenue from continuing operations	**$ 216,665**	$ 205,003	**$ 641,795**	$ 598,878
Equity in earnings of unconsolidated companies	**204**	1,838	**17,184**	17,478
	216,869	206,841	**658,979**	616,356
Operating expenses:				
Rental expenses	**49,466**	45,826	**147,479**	136,669
Real estate taxes	**27,415**	25,362	**82,593**	75,048
Interest expense	**49,260**	43,414	**143,657**	127,882
Depreciation and amortization	**75,144**	71,438	**228,062**	204,642
	201,285	186,040	**601,791**	544,241
Earnings from continuing rental operations	**15,584**	20,801	**57,188**	72,115
SERVICE OPERATIONS				
Revenues:				
General contractor gross revenue	**86,524**	77,996	**248,918**	195,714
General contractor costs	**(84,588)**	(66,696)	**(231,526)**	(171,374)
Net general contractor revenue	**1,936**	11,300	**17,392**	24,340
Service fee revenue	**6,792**	7,857	**22,929**	21,909
Gain on sale of Build-for-Sale properties	**20,338**	1,116	**26,657**	10,793
Total service operations revenue	**29,066**	20,273	**66,978**	57,042
Operating expenses	**7,328**	12,972	**30,437**	30,789
Earnings from service operations	**21,738**	7,301	**36,541**	26,253
General and administrative expense	**(10,448)**	(3,856)	**(29,498)**	(27,923)
Other operating expenses	**(2,474)**	(501)	**(5,273)**	(1,359)
Operating income	**24,400**	23,745	**58,958**	69,086
OTHER INCOME (EXPENSE)				
Interest and other income, net	**2,804**	6,755	**9,123**	12,546
Earnings from sales of land, net	**4,469**	1,799	**8,491**	18,207
Minority interest in earnings of common unitholders	**(823)**	(1,174)	**(1,640)**	(3,666)

Income from continuing operations	**30,850**	31,125	**74,932**	96,173
Discontinued operations:				
Income (loss) from discontinued operations, net of minority interest	**(165)**	299	**1,663**	4,065
Gain on sale of depreciable properties, net of minority interest	**1,235**	37,190	**11,342**	104,467
Income from discontinued operations	**1,070**	37,489	**13,005**	108,532
Net income	**31,920**	68,614	**87,937**	204,705
Dividends on preferred shares	**(18,866)**	(15,227)	**(53,038)**	(45,679)
Net income available for common shareholders	**$ 13,054**	$ 53,387	**$ 34,899**	$ 159,026
Basic net income per common share:				
Continuing operations	**$ .08**	$ .12	**$ .15**	$ .37
Discontinued operations	**.01**	.27	**.09**	.79
Total	**$ .09**	$ .39	**$ .24**	$ 1.16
Diluted net income per common share:				
Continuing operations	**$ .08**	$ .12	**$ .15**	$ .37
Discontinued operations	**.01**	.27	**.09**	.78
Total	**$ .09**	$ .39	**$ .24**	$ 1.15
Weighted average number of common shares outstanding	**146,966**	137,576	**146,680**	137,110
Weighted average number of common shares and potential dilutive securities	**155,344**	147,651	**155,105**	147,986

See accompanying Notes to Consolidated Financial Statements

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

	2008	2007
Cash flows from operating activities:		
Net income	**$ 87,937**	$ 204,705
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of buildings and tenant improvements	**179,699**	160,987
Amortization of deferred leasing and other costs	**51,257**	47,235
Amortization of deferred financing costs	**10,134**	8,518
Minority interest in earnings	**2,326**	11,233
Straight-line rent adjustment	**(13,523)**	(13,643)
Earnings from land and depreciated property sales	**(20,431)**	(129,958)
Build-for-sale operations, net	**31,558**	(167,640)
Construction contracts, net	**(12,748)**	720
Other accrued revenues and expenses, net	**6,325**	8,991
Operating distributions received in excess of equity in earnings from unconsolidated companies	**6,730**	4,166
Net cash provided by operating activities	**329,264**	135,314
Cash flows from investing activities:		
Development of real estate investments	**(365,781)**	(324,317)
Acquisition of real estate investments and related intangible assets	**(20,123)**	(80,954)
Acquisition of land held for development	**(35,564)**	(155,556)
Recurring tenant improvements	**(28,075)**	(32,987)
Recurring leasing costs	**(18,934)**	(22,771)
Recurring building improvements	**(5,387)**	(4,894)
Other deferred leasing costs	**(18,930)**	(20,562)
Other deferred costs and other assets	**(8,392)**	(11,301)
Proceeds from land and depreciated property sales, net	**85,717**	405,094
Capital distributions from unconsolidated companies	**65,553**	207,545
Capital contributions and advances to unconsolidated companies, net	**(78,760)**	(104,461)
Net cash used for investing activities	**(428,676)**	(145,164)
Cash flows from financing activities:		
Proceeds from issuance of common shares	**14,020**	2,889
Proceeds from issuance of preferred shares, net	**290,014**	
Proceeds from unsecured debt issuance	**325,000**	339,424
Payments on unsecured debt	**(225,000)**	(100,000)
Payments on secured indebtedness including principal amortization	**(43,103)**	(22,617)
Borrowings (payments) on lines of credit, net	**(12,358)**	(12,776)
Distributions to common shareholders	**(211,898)**	(195,799)

Distributions to preferred shareholders	**(53,038)**	(45,679)
Distributions to minority interest, net	**(10,481)**	(11,637)
Cash settlement of interest rate swaps	**(14,625)**	10,746
Deferred financing costs	**(3,661)**	(4,760)
Net cash provided by (used for) financing activities	**54,870**	(40,209)
Net decrease in cash and cash equivalents	**(44,542)**	(50,059)
Cash and cash equivalents at beginning of period	**48,012**	68,483
Cash and cash equivalents at end of period	**$ 3,470**	$ 18,424
Other non-cash items:		
Conversion of Limited Partner Units to common shares	**$ 5,499**	$ 168,671
Issuance of Limited Partner Units for acquisition	**$**	$ 11,020
Assumption of secured debt for real estate acquisitions	**$ 39,480**	$
Contribution of property to, net of debt assumed by, unconsolidated companies	**$ 113,688**	$ 125,353
Distribution of property from partner in unconsolidated company	**$ 28,577**	$

See accompanying Notes to Consolidated Financial Statements

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DUKE REALTY CORPORATION AND SUBSIDIARIES
Consolidated Statement of Shareholders Equity
For the nine months ended September 30, 2008
(in thousands, except per share data)
(Unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Net Income	Total
Balance at December 31, 2007	**$ 744,000**	**$ 1,462**	**$ 2,632,615**	**$ (1,279)**	**$ (626,765)**	**$ 2,750,033**
Comprehensive Income:						
Net income					87,937	87,937
Losses on derivative instruments				(6,623)		(6,623)
Comprehensive income						$ 81,314
Issuance of preferred shares	300,000		(10,000)			290,000
Issuance of common shares		5	12,093			12,098
Stock based compensation plan activity		2	12,400		(980)	11,422
Conversion of Limited Partner Units		2	5,497			5,499
Distributions to preferred shareholders					(53,038)	(53,038)
Distributions to common shareholders ($1.445 per share)					(211,898)	(211,898)
Balance at September 30, 2008	**$ 1,044,000**	**$ 1,471**	**$ 2,652,605**	**$ (7,902)**	**$ (804,744)**	**$ 2,885,430**

See accompanying Notes to Consolidated Financial Statements

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DUKE REALTY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General Basis of Presentation

The interim consolidated financial statements included herein have been prepared by Duke Realty Corporation (the Company) without audit. The 2007 year-end consolidated balance sheet data included in this Quarterly Report on Form 10-Q (this Report) was derived from the audited financial statements in our Annual Report on Form 10-K for the year ended December 31, 2007, but does not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP). The financial statements have been prepared in accordance with GAAP for interim financial information and in accordance with Rule 10-01 of Regulation S-X of the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenue and expenses during the reporting period. Our actual results could differ from those estimates and assumptions. These financial statements should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations included herein and the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2007.

We believe we qualify as a real estate investment trust (REIT) under the provisions of the Internal Revenue Code of 1986, as amended. Substantially all of our Rental Operations (see Note 6) are conducted through Duke Realty Limited Partnership (DRLP). We owned approximately 95.1% of the common partnership interests of DRLP (Units) at September 30, 2008. The remaining Units are redeemable for shares of our common stock on a one-to-one basis and earn dividends at the same rates as shares of our common stock. We conduct our Service Operations (see Note 6) through Duke Realty Services LLC, Duke Realty Services Limited Partnership and Duke Construction Limited Partnership. The consolidated financial statements include our accounts and the accounts of our majority-owned or controlled subsidiaries. In this Report, unless the context indicates otherwise, the terms we, us and our refer to the Company and those entities owned or controlled by the Company.

2. Reclassifications

Certain amounts in the accompanying consolidated financial statements for 2007 have been reclassified to conform to the 2008 consolidated financial statement presentation.

3. Indebtedness

Our unsecured lines of credit as of September 30, 2008 are described as follows (in thousands):

Description		Borrowing Capacity	Maturity Date	Outstanding Balance at September 30, 2008
Unsecured Line of Credit	DRLP	$1,300,000	January 2010	$ 525,000
Unsecured Line of Credit	Consolidated Subsidiary	$ 30,000	July 2011	$ 8,709

We use the DRLP unsecured line of credit to fund development activities, acquire additional rental properties and provide working capital. 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. Interest rates on the amounts outstanding on the DRLP unsecured line of credit as of September 30,

2008 ranged from LIBOR plus ..48% to LIBOR plus .525% (ranging from 2.97% to 4.235% as of September 30, 2008). This line of credit also contains financial covenants that require us to meet financial ratios and defined levels of performance, including those related to variable rate indebtedness, consolidated net worth and debt-to-market capitalization. As of September 30, 2008, we were in compliance with all covenants under this line of credit.

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The consolidated subsidiary s unsecured line of credit allows for borrowings up to $30.0 million at a rate of LIBOR plus .85% (equal to 4.279% for outstanding borrowings as of September 30, 2008). This unsecured line of credit is used to fund development activities within the consolidated subsidiary and matures in July 2011 with a 12-month extension option.

In January 2008, we repaid $125.0 million of senior unsecured notes with an effective interest rate of 3.36% on their scheduled maturity date.

In May 2008, we repaid $100.0 million of senior unsecured notes with an effective interest rate of 6.76% on their scheduled maturity date.

In May 2008, we issued $325.0 million of 6.25% senior unsecured notes due in May 2013. After including the effect of forward starting swaps (see Note 9), which were designated as cash flow hedges for this offering, the effective interest rate is 7.36%.

4. Related Party Transactions

We provide property management, leasing, construction and other tenant related services to unconsolidated companies in which we have equity interests. For the nine months ended September 30, 2008 and 2007, respectively, we earned management fees of $5.6 million and $5.1 million, leasing fees of $1.9 million and $2.7 million and construction and development fees of $9.6 million and $9.0 million from these companies. We recorded these fees based on contractual terms that approximate market rates for these types of services and we have eliminated our ownership percentage of these fees in the consolidated financial statements.

5. Net Income Per Common Share

Basic net income per common share is computed by dividing net income available for common shareholders by the weighted average number of common shares outstanding for the period. Diluted net income per common share is computed by dividing the sum of net income available for common shareholders and the minority interest in earnings allocable to Units not owned by us, by the sum of the weighted average number of common shares outstanding and minority Units outstanding, including any potential dilutive securities for the period.

The following table reconciles the components of basic and diluted net income per common share for the three and nine months ended September 30, 2008 and 2007, respectively (in thousands):

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2008	2007	**2008**	2007
Basic net income available for common shareholders	**$ 13,054**	$ 53,387	**$ 34,899**	$ 159,026
Minority interest in earnings of common unitholders	**687**	3,573	**1,861**	11,101
Diluted net income available for common shareholders	**$ 13,741**	$ 56,960	**$ 36,760**	$ 170,127
Weighted average number of common shares outstanding	**146,966**	137,576	**146,680**	137,110
Weighted average partnership Units outstanding	**7,638**	9,176	**7,727**	9,560
	740	899	**698**	1,316

Dilutive shares for stock-based compensation plans (1)				
Weighted average number of common shares and potential dilutive securities	**155,344**	147,651	**155,105**	147,986

(1) Excludes (in thousands of shares) 6,772 and 1,633 of anti-dilutive shares for the three months ended September 30, 2008 and 2007, respectively, and 7,166 and 646 of anti-dilutive shares for the nine months ended September 30, 2008 and 2007, respectively. Also excludes the 3.75% Exchangeable Senior Notes due November 2011 (Exchangeable Notes) issued in 2006, that have an anti-dilutive effect on earnings per share for the three and nine-month periods ended September 30, 2008 and 2007.

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6. Segment Reporting

We have three reportable operating segments, the first two of which consist of the ownership and rental of office and industrial real estate investments. The operations of our office and industrial properties, along with our healthcare and retail properties (our healthcare and retail properties, which do not meet the quantitative thresholds defined in Statement of Financial Accounting Standard (SFAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information*, are not separately presented as a reportable segment), are collectively referred to as Rental Operations . The third reportable segment consists of our Build-for-Sale operations (defined below) and providing of various real estate services such as property management, maintenance, leasing, development and construction management to third-party property owners and joint ventures (and is collectively referred to as Service Operations). Our reportable segments offer different products or services and are managed separately because each segment requires different operating strategies and management expertise.

During the period between the completion of development, rehabilitation or repositioning of a property developed or acquired with the intent to sell (Build-for-Sale property) and the date the property is contributed to an unconsolidated company or sold to a third party, the property and its associated rental revenue and rental expenses are included in the applicable Rental Operations segment because the primary activity associated with the Build-for-Sale property during that period is rental activities. Upon contribution or sale, the resulting gain or loss is part of the income of the Service Operations business segment.

Other revenue consists mainly of equity in earnings of unconsolidated companies. Segment FFO information (FFO is defined below) is calculated by subtracting operating expenses attributable to the applicable segment from segment revenues. Non-segment assets consist of corporate assets including cash, deferred financing costs and investments in unconsolidated companies. Interest expense and other non-property specific revenues and expenses are not allocated to individual segments in determining our performance measure.

We assess and measure segment operating results based upon an industry performance measure referred to as Funds From Operations (FFO), which management believes is a useful indicator of our operating performance. FFO is used by industry analysts and investors as a supplemental operating performance measure of a REIT. FFO is calculated in accordance with the definition that was adopted by the Board of Governors of the National Association of Real Estate Investment Trusts (NAREIT). NAREIT created FFO as a supplemental measure of REIT operating performance that excludes historical cost depreciation, among other items, from net income determined in accordance with GAAP. FFO is a non-GAAP financial measure developed by NAREIT to compare the operating performance of REITs. The most comparable GAAP measure is net income (loss). FFO should not be considered as a substitute for net income or any other measures derived in accordance with GAAP and may not be comparable to other similarly titled measures of other companies.

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

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Management believes that the use of FFO, combined with the required primary GAAP presentations, improves the understanding of operating results of REITs among the investing public and makes comparisons of REIT operating results more meaningful. Management believes FFO is a useful measure for reviewing comparative operating and financial performance (although FFO should be reviewed in conjunction with net income, which remains the primary measure of performance) because by excluding gains or losses related to sales of previously depreciated real estate assets and excluding real estate asset depreciation and amortization, FFO provides a useful comparison of the operating performance of our real estate between periods or as compared to different companies.

The following table shows (i) the revenues and FFO for each of the reportable segments and (ii) a reconciliation of net income available for common shareholders to the calculation of FFO for the three and nine months ended September 30, 2008 and 2007, respectively (in thousands):

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2008	2007	**2008**	2007
Revenues				
Rental Operations:				
Office	**$ 144,026**	$ 144,729	**$ 427,393**	$ 420,930
Industrial	**62,856**	52,497	**184,691**	160,031
Non-reportable Rental Operations segments	**8,014**	6,212	**22,374**	12,963
Service Operations	**29,066**	20,273	**66,978**	57,042
Total Segment Revenues	**243,962**	223,711	**701,436**	650,966
Other Revenue	**1,973**	3,403	**24,521**	22,432
Consolidated Revenue from continuing operations	**$ 245,935**	$ 227,114	**$ 725,957**	$ 673,398
Discontinued Operations	**91**	3,461	**6,707**	22,635
Consolidated Revenue	**$ 246,026**	$ 230,575	**$ 732,664**	$ 696,033
Funds From Operations				
Rental Operations:				
Office	**$ 87,037**	$ 89,966	**$ 258,136**	$ 257,702
Industrial	**49,283**	40,444	**141,471**	122,925
Non-reportable Rental Operations segment	**5,174**	4,222	**14,029**	8,887
Service Operations	**21,738**	7,301	**36,541**	26,253
Total Segment FFO	**163,232**	141,933	**450,177**	415,767
Non-Segment FFO:				
Interest expense	**(49,260)**	(43,414)	**(143,657)**	(127,882)
Interest and other income, net	**330**	6,254	**3,850**	11,187
General and administrative expense	**(10,448)**	(3,856)	**(29,498)**	(27,923)
Gain on land sales, net	**4,469**	1,799	**8,491**	18,207
Other non-segment income (expense)	**(1,710)**	(816)	**(1,913)**	(2,352)
Minority interest	**(823)**	(1,174)	**(1,640)**	(3,666)
Minority interest share of FFO adjustments	**(4,363)**	(2,697)	**(12,351)**	(7,539)
Joint venture FFO	**14,654**	12,414	**45,458**	36,801
Dividends on preferred shares	**(18,866)**	(15,227)	**(53,038)**	(45,679)
Discontinued operations, net of minority interest	**(113)**	(1,543)	**3,959**	361

Consolidated basic FFO	**$ 97,102**	$ 93,673	**$ 269,838**	$ 267,282
Depreciation and amortization on continuing operations	**(75,144)**	(71,438)	**(228,062)**	(204,642)
Depreciation and amortization on discontinued operations	**(116)**	(638)	**(2,894)**	(3,580)
Company s share of joint venture adjustments	**(14,450)**	(10,574)	**(28,769)**	(21,152)
Earnings from depreciated property sales on discontinued operations	**1,299**	39,670	**11,940**	111,751
Earnings from depreciated property sales- share of joint venture		(3)	**495**	1,828
Minority interest share of FFO adjustments	**4,363**	2,697	**12,351**	7,539
Net income available for common shareholders	**$ 13,054**	$ 53,387	**$ 34,899**	$ 159,026

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7. Discontinued Operations and Assets Held-for-Sale

The operations of 39 buildings are currently classified as discontinued operations for the nine-month periods ended September 30, 2008 and September 30, 2007. These 39 buildings consist of 20 industrial and 19 office properties. Of these properties, seven were sold during the first nine months of 2008 and 32 were sold during 2007.

The following table illustrates the operations of the buildings reflected in discontinued operations for the three and nine months ended September 30, 2008 and 2007, respectively (in thousands):

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2008	2007	**2008**	2007
Revenues	**$ 91**	$ 3,461	**$ 6,707**	$ 22,635
Expenses:				
Operating	**62**	1,475	**1,239**	8,945
Interest	**86**	1,021	**821**	5,732
Depreciation and amortization	**116**	638	**2,894**	3,580
General and administrative		8	**2**	30
Operating income (loss)	**(173)**	319	**1,751**	4,348
Minority interest income (expense)	**8**	(20)	**(88)**	(283)
Income (loss) from discontinued operations, before gain on sales	**(165)**	299	**1,663**	4,065
Gain on sale of properties	**1,299**	39,670	**11,940**	111,751
Minority interest expense gain on sales	**(64)**	(2,480)	**(598)**	(7,284)
Gain on sale of properties, net of minority interest	**1,235**	37,190	**11,342**	104,467
Income from discontinued operations	**$ 1,070**	$ 37,489	**$ 13,005**	$ 108,532

At September 30, 2008, we have classified 10 in-service properties as held-for-sale, but have included the results of operations of these properties in continuing operations. The following table illustrates the aggregate balance sheet information of these 10 held-for-sale properties at September 30, 2008 (in thousands):

	Total Held-for-Sale Properties
Balance Sheet:	
Real estate investments, net	$ 185,399
Other assets	11,888
Total assets held-for-sale	$ 197,287
Accrued expenses	$ 1,296
Other liabilities	2,250
Total liabilities held-for-sale	$ 3,546

We had entered into a preliminary agreement to sell a portfolio of 14 buildings in our Cleveland Office market and had accordingly ceased depreciation on those buildings in July 2007, as they met the criteria for held-for-sale accounting. As a result, we had also included the 14 buildings in discontinued operations. However, because the potential buyer was not able to secure financing on acceptable terms, the sale agreement was cancelled and we have determined that this portfolio no longer meets the criteria for held-for-sale classification. As a result of this determination, the portfolio was reclassified from discontinued operations to continuing operations in the first quarter of 2008, resulting in an additional $5.3 million of depreciation expense in the first quarter of 2008.

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

8. Shareholders Equity

We periodically use the public equity markets to fund the development and acquisition of additional rental properties or to pay down debt. The proceeds of these offerings are contributed to DRLP in exchange for an additional interest in DRLP. In February 2008, we issued $300.0 million of 8.375% Series O Cumulative Redeemable Preferred Stock from which the net proceeds were used to reduce the outstanding balance on DRLP s unsecured line of credit. Shares of our Series O Cumulative Redeemable Preferred Stock have no stated maturity date although they may be redeemed, at our option, in February 2013.

We also issued new shares of common stock under employee and non-employee stock purchase plans, as well as for dividend reinvestment plans. We received $12.1 million and $2.2 million of proceeds from share issuances during the nine-month periods ended September 30, 2008 and 2007, respectively.

9. Financial Instruments

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

The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

To comply with the provisions of SFAS 157, to the extent it has been adopted for the period ending September 30, 2008 (see Note 10), we incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements.

Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by us and our counterparties. However, as of September 30, 2008, we have assessed the significance of the impact of the credit valuation adjustments on the overall valuations of our derivative positions and have determined that the credit valuation adjustments are not significant to the overall valuation of our derivatives. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. We do not have any fair value measurements using significant unobservable inputs (Level 3) as of September 30, 2008.

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In November 2007, we entered into forward-starting interest rate swaps with notional amounts appropriate to hedge interest rates on $300.0 million of anticipated debt offerings in 2008. The forward-starting swaps were appropriately designated and tested for effectiveness as cash flow hedges. In March 2008, we settled the forward-starting swaps and made a cash payment of $14.6 million to the counterparties. An effectiveness test was performed as of the settlement date and it was concluded that a highly effective cash flow hedge was still in place for the expected debt offering. Of the amount paid in settlement, approximately $700,000 was immediately reclassified to interest expense, as the result of partial ineffectiveness calculated at the settlement date. The net amount of $13.9 million was recorded in Other Comprehensive Income (OCI) and is being recognized through interest expense over the life of the hedged debt offering, which took place in May 2008. The remaining unamortized amount included in OCI as of September 30, 2008 is $12.7 million.

The effectiveness of our hedges is evaluated throughout their lives using the hypothetical derivative method under which the change in fair value of the actual swap designated as the hedging instrument is compared to the change in fair value of a hypothetical swap. We had no material interest rate derivatives, when considering both fair value and notional amount, at September 30, 2008.

10. Recent Accounting Pronouncements

SFAS No.157, *Fair Value Measurements* (SFAS 157) was effective for us on January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances. Based on the guidance provided by Financial Accounting Standards Board (FASB) Staff Position No. 157-2, *Effective Date of FASB Statement No. 157* (FSP No. 157-2), we have only partially implemented the guidance promulgated under SFAS 157 as of January 1, 2008, which in our circumstances only affects financial instruments. SFAS 157 will not be applied during 2008 to nonfinancial long-lived asset groups that may be measured for an impairment assessment, reporting units measured at fair value in the first step of the goodwill impairment test, and nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination. We will fully apply the provisions of SFAS 157 beginning January 1, 2009 and do not expect there to be a material impact to the financial statements.

SFAS 157 emphasized that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, SFAS 157 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities to which we have access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity s own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair

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value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

In October 2008, FASB Staff Position No. 157-3, *Determining the Fair Value of a Financial Asset in a Market That Is Not Active* (FSP 157-3), was approved and became immediately effective. FSP 157-3 provides additional guidance for applying fair value measurements in markets that are not active. Beginning January 1, 2009, the date in which we will fully apply the provisions of SFAS 157, FSP 157-3 will apply to fair value measurements of nonfinancial long-lived asset groups, specifically real estate assets, which will be performed in the context of impairment testing or in applying acquisition accounting. We are currently evaluating the impact of adopting FSP 157-3.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* (SFAS 141R) and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment to ARB No. 51* (SFAS 160). SFAS 141R and SFAS 160 require most identifiable assets, liabilities, noncontrolling interests and goodwill acquired in a business combination to be recorded at full fair value and require noncontrolling interests (previously referred to as minority interests) to be reported as a component of equity, which changes the accounting for transactions with noncontrolling interest holders. Both Statements are effective for periods beginning on or after December 15, 2008, and earlier adoption is prohibited. SFAS 141R will be applied to business combinations after the effective date. SFAS 160 will be applied prospectively to all noncontrolling interests, including any that arose before the effective date. We are currently evaluating the impact of adopting SFAS 141R and SFAS 160 on our results of operations and financial position.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 requires enhanced disclosures for derivative instruments and hedging activities, specifically in regard to the purpose of the derivative and how the derivative and hedging activities affect an entity s financial position, financial performance and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008 and early application is allowed. We will apply SFAS 161 beginning in 2009.

In May 2008, the FASB ratified FASB Staff Position No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (FSP APB 14-1) that will require separate accounting for the debt and equity components of convertible instruments. FSP APB 14-1 will require that the value assigned to the debt component would be the estimated fair value of a similar bond without the conversion feature, which would result in the debt being recorded at a discount. The resulting debt discount will be amortized over the period during which the debt is expected to be outstanding (i.e., through the first optional redemption date) as additional non-cash interest expense. FSP APB 14-1 is effective January 1, 2009 and will be applied retrospectively to the Exchangeable Notes that we issued in November 2006, which we currently estimate will result in us recognizing additional non-cash interest expense of between $5.5 million and $7.5 million per annum.

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11. Subsequent Events

Declaration of Dividends

The Company s Board of Directors declared the following dividends at its October 29, 2008, regularly scheduled board meeting:

Class	Quarterly Amount/Share	Record Date	Payment Date
Common	$ 0.485	November 14, 2008	November 29, 2008
Preferred (per depositary share):			
Series J	$0.414063	November 14, 2008	November 28, 2008
Series K	$0.406250	November 14, 2008	November 28, 2008
Series L	$0.412500	November 14, 2008	November 28, 2008
Series M	$0.434375	December 17, 2008	December 31, 2008
Series N	$0.453125	December 17, 2008	December 31, 2008
Series O	$0.523438	December 17, 2008	December 31, 2008

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

Cautionary Statement Regarding Forward-Looking Statements

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

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

Changes in general economic and business conditions, including the performance of financial markets;

Our continued qualification as a real estate investment trust, or REIT , for U.S. federal income tax purposes;

Heightened competition for tenants and potential decreases in property occupancy;

Potential increases in real estate construction costs;

Potential changes in the financial markets and interest rates;

Volatility in our stock price and trading volume;

Our continuing ability to raise funds on favorable terms through the issuance of debt and equity in the capital markets;

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

Our ability to be flexible in the development and operations of joint venture properties;

Our ability to successfully dispose of properties on terms that are favorable to us;

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 (SEC).

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

This list of risks and uncertainties, however, is only a summary of some of the most important factors and is not intended to be exhaustive. Additional information regarding risk factors that may affect us is included under the caption Risk Factors in Part II, Item 1A of this Report, and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which we filed with the SEC on February 29, 2008. The risk factors contained in our Annual Report are updated by us from time to time in Quarterly Reports on Form 10-Q and other public filings.

Business Overview

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

As of September 30, 2008, we:

- Owned or jointly controlled 734 industrial, office, healthcare and retail properties (including properties under development), consisting of more than 126.0 million square feet; and
- Owned or jointly controlled more than 7,100 acres of land with an estimated future development potential of more than 107 million square feet of industrial, office, healthcare and retail properties.

We provide the following services for our properties and for certain properties owned by third parties and joint ventures:

- Property leasing;
- Property management;
- Asset management;
- Construction;
- Development; and
- Other tenant-related services.

We also develop or acquire properties with the intent to sell (hereafter referred to as Build-for-Sale properties). Build-for-Sale properties represent properties where our investment strategy results in a decision to sell the property within a relatively short time after it is placed in service. Build-for-Sale properties are generally identified as such prior to construction commencement and may either be sold or contributed to an unconsolidated entity in which we have an ownership interest or sold outright to third parties. The state of the capital markets has limited the access to financing for potential purchasers of our properties and, therefore, made it more difficult for us to execute our capital recycling program. Additionally, with the potential limits that the current state of the economy may place on our own ability to access debt financing at acceptable rates, management s priorities with regard to uses of capital for development of new properties have been re-evaluated and, thus, new development commitments have been significantly curtailed.

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Key Performance Indicators

Our operating results depend primarily upon rental income from our industrial, office, healthcare and retail properties (Rental Operations). The following highlights the areas of Rental Operations that we consider critical for future revenue growth. All square footage totals and occupancy percentages reflect both wholly owned properties and properties in joint ventures.

Occupancy Analysis: Our ability to maintain favorable occupancy rates is a principal driver of maintaining and increasing rental revenues from continuing operations. The following table sets forth occupancy information regarding our in-service portfolio of rental properties (including rental properties of unconsolidated joint ventures but excluding all in-service Build-for-Sale properties) as of September 30, 2008 and 2007, respectively (in thousands, except percentage data):

	Total Square Feet		Percent of Total Square Feet		Percent Occupied	
Type	**2008**	2007	**2008**	2007	**2008**	2007
Industrial	**88,764**	76,539	**71.5%**	69.8%	**89.3%**	93.8%
Office	**33,723**	31,787	**27.1%**	29.0%	**88.3%**	90.7%
Other	**1,691**	1,306	**1.4%**	1.2%	**90.0%**	92.8%
Total	**124,178**	109,632	**100.0%**	100.0%	**89.1%**	92.9%

The decrease in occupancy at September 30, 2008, as compared to September 30, 2007, is the result of an increase in developments which were not fully leased being placed in service between the two periods. There are no significant differences in occupancy between wholly owned properties and properties held by unconsolidated subsidiaries.

Lease Expiration and Renewal: Our ability to maintain and improve occupancy rates primarily depends upon our continuing ability to re-lease expiring space. The following table reflects our in-service portfolio lease expiration schedule by property type as of September 30, 2008. The table indicates square footage and annualized net effective rents (based on September 2008 rental revenue) under expiring leases (in thousands, except percentage data):

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	Total Portfolio			Industrial		Office		Other	
Year of Expiration	Square Feet	Ann. Rent Revenue	%of Revenue	Square Feet	Ann. Rent Revenue	Square Feet	Ann. Rent Revenue	Square Feet	Ann. Rent Revenue
2008	2,613	$ 13,453	3%	2,037	$ 7,441	561	$ 5,801	15	$ 211
2009	12,023	80,091	10%	8,742	36,271	3,235	43,373	46	447
2010	14,190	100,269	13%	10,090	42,687	4,087	57,395	13	187
2011	16,016	95,965	12%	12,337	46,064	3,609	48,726	70	1,175
2012	11,315	79,127	10%	7,771	30,408	3,501	47,908	43	811
2013	12,939	105,260	14%	7,867	32,037	5,015	72,329	57	894
2014	8,787	55,054	7%	6,749	24,469	2,004	30,021	34	564
2015	8,643	64,550	8%	6,276	24,854	2,366	39,667	1	29
2016	4,904	32,249	4%	3,527	11,947	1,166	17,859	211	2,443
2017	6,389	43,454	6%	4,598	18,146	1,528	21,935	263	3,373
2018 and Thereafter	12,774	99,161	13%	9,295	43,805	2,710	41,877	769	13,479
Total Leased	110,593	$ 768,633	100%	79,289	$ 318,129	29,782	$ 426,891	1,522	$ 23,613
Total Portfolio Square Feet	124,178			88,764		33,723		1,691	
Percent Occupied	89.1%			89.3%		88.3%		90.0%	

Note: Includes 100% of properties in unconsolidated joint ventures and excludes Build-for-Sale properties.

We renewed 74.3% and 73.1% of our leases up for renewal in the three and nine months ended September 30, 2008, totaling approximately 1.9 million and 6.4 million square feet, respectively. This compares to renewals of 80.8% and 81.9% for the three and nine months ended September 30, 2007, totaling approximately 2.9 million and 8.5 million square feet, respectively. The reduced overall renewal percentage is primarily due to a decline in the percentage of leases renewed in our bulk industrial portfolio. When bulk industrial leases are not renewed, it generally results in a greater impact on the overall lease renewal percentage since the average square footage of our bulk industrial leases is significantly higher than that of our average office leases. We attained 4.0% and 4.9% growth in net effective rents on these renewals in the three and nine months ended September 30, 2008, respectively.

The average term of renewals for the three and nine months ended September 30, 2008 was 4.3 and 3.7 years, respectively, compared to an average term of 3.0 and 3.9 years for the three and nine months ended September 30, 2007, respectively.

Future Development: Another source of growth in earnings is the development of additional properties. These properties should provide future earnings through income upon sale or from Rental Operations income as they are placed in service and are leased. Considering the current state of the economy and the risks of significant constraints on access to capital, we have reduced the level of our wholly owned new development activities pending improvements in the economy and capital markets.

We had 7.0 million square feet of property under development with total estimated costs upon completion of $832.1 million at September 30, 2008 compared to 16.6 million square feet with total costs of $1.3 billion at September 30, 2007. The square footage and estimated costs include both wholly owned and joint venture development activity at 100%.

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The following table summarizes our properties under development as of September 30, 2008 (in thousands, except percentage data):

Anticipated In-Service Date	Square Feet	Percent Leased	Total Estimated Project Costs	Anticipated Stabilized Return (1)
Held-for-Rental Buildings:				
4th Quarter 2008	569	40%	$ 64,235	9.57%
1st Quarter 2009	503	0%	18,474	7.97%
2nd Quarter 2009				
Thereafter	772	49%	186,510	8.35%
	1,844	33%	$ 269,219	8.62%
Build-for-Sale Properties:				
4th Quarter 2008	1,532	38%	$ 61,358	8.84%
1st Quarter 2009	1,786	70%	77,974	8.18%
2nd Quarter 2009	101	100%	17,339	9.05%
Thereafter	1,694	57%	406,246	8.08%
	5,113	57%	$ 562,917	8.21%
Total	6,957	50%	$ 832,136	8.34%

(1) Anticipated yield upon leasing 95% of the property.

Acquisition and Disposition Activity: Gross sales proceeds related to the dispositions of wholly owned held-for-rental properties were $62.6 million and $317.4 million for the nine months ended September 30, 2008 and 2007, respectively. Dispositions of wholly owned Build-for-Sale properties resulted in $222.8 million in proceeds for the nine months ended September 30, 2008, compared to $85.0 million for such dispositions in the same period in 2007. Additionally, our share of proceeds from sales of properties within unconsolidated joint ventures, in which we have less than a 100% interest, totaled $35.1 million and $9.3 million for the nine months ended September 30, 2008 and 2007, respectively. The decrease in wholly owned held-for-rental dispositions is partially attributable to the current credit environment impacting potential buyers ability to finance acquisitions. Proceeds from dispositions of wholly owned Build-for-Sale properties increased largely as the result of $146.2 million in current year proceeds from five buildings sold to a 20% owned unconsolidated joint venture with whom we have an agreement to sell up to $800.0 million in Build-for-Sale properties over the next three years.

For the nine months ended September 30, 2008, we acquired $60.5 million of income producing properties comprised of five industrial real estate properties in Savannah, Georgia, compared to acquisitions of $47.4 million of income producing properties for the same period in 2007. In addition, in the first nine months of 2007, we continued our expansion into the healthcare real estate market by completing the acquisition of Bremner Healthcare Real Estate, a national health care development and management firm. The initial consideration paid to the sellers totaled $47.1 million, and the sellers may be eligible for further contingent payments over three years following the acquisition date. We also acquired $37.4 million of undeveloped land in the nine months ended September 30, 2008, compared to

$156.8 million in the same period in 2007.

Funds From Operations

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

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

Management believes that the use of FFO, combined with the required primary GAAP presentations, improves the understanding of operating results of REITs among the investing public and makes comparisons of REIT operating results more meaningful. Management believes FFO is a useful measure for reviewing comparative operating and financial performance (although FFO should be reviewed in conjunction with net income, which remains the primary measure of performance) because by excluding gains or losses related to sales of previously depreciated real estate assets and excluding real estate asset depreciation and amortization, FFO provides a useful comparison of the operating performance of our real estate between periods or as compared to different companies.

The following table shows a reconciliation of net income available for common shareholders to the calculation of FFO for the three and nine months ended September 30, 2008 and 2007, respectively (in thousands):

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2008	2007	**2008**	2007
Net income available for common shareholders	**$ 13,054**	$ 53,387	**$ 34,899**	$ 159,026
Adjustments:				
Depreciation and amortization	**75,260**	72,076	**230,956**	208,222
Company share of joint venture depreciation and amortization	**14,450**	10,574	**28,769**	21,152
Earnings from depreciable property sales wholly owned	**(1,299)**	(39,670)	**(11,940)**	(111,751)
Earnings from depreciable property sales share of joint venture		3	**(495)**	(1,828)
Minority interest share of adjustments	**(4,363)**	(2,697)	**(12,351)**	(7,539)
Funds From Operations	**$ 97,102**	$ 93,673	**$ 269,838**	$ 267,282

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Results of Operations

A summary of our operating results and property statistics for the three and nine months ended September 30, 2008 and 2007, respectively, is as follows (in thousands, except number of properties and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	**2008**	2007
Rental Operations revenues from Continuing Operations	**$216,869**	$206,841	**$658,979**	$616,356
Service Operations revenues from Continuing Operations	**29,066**	20,273	**66,978**	57,042
Earnings from Continuing Rental Operations	**15,584**	20,801	**57,188**	72,115
Earnings from Continuing Service Operations	**21,738**	7,301	**36,541**	26,253
Operating income	**24,400**	23,745	**58,958**	69,086
Net income available for common shareholders	**13,054**	53,387	**34,899**	159,026
Weighted average common shares outstanding	**146,966**	137,576	**146,680**	137,110
Weighted average common shares and potential dilutive securities	**155,344**	147,651	**155,105**	147,986
Basic income per common share:				
Continuing operations	**$ .08**	$ .12	**$ .15**	$ .37
Discontinued operations	**$ .01**	$ .27	**$ .09**	$ .79
Diluted income per common share:				
Continuing operations	**$ .08**	$ .12	**$ .15**	$ .37
Discontinued operations	**$ .01**	$ .27	**$ .09**	$ .78
Number of in-service properties at end of period	**724**	687	**724**	687
In-service square footage at end of period	**124,178**	109,632	**124,178**	109,632

Comparison of Three Months Ended September 30, 2008 to Three Months Ended September 30, 2007

Rental Revenue From Continuing Operations

Overall, rental revenue from continuing operations increased from $205.0 million for the quarter ended September 30, 2007 to $216.7 million for the same period in 2008. The following table reconciles rental revenue from continuing operations by reportable segment to our total reported rental revenue from continuing operations for the three months ended September 30, 2008 and 2007, respectively (in thousands):

	2008	2007
Rental Revenue:		
Office	**$ 144,026**	$ 144,729
Industrial	**62,856**	52,497
Non-reportable segments	**9,783**	7,777
Total	**$ 216,665**	$ 205,003

The following factors contributed to these results:

We acquired 12 properties and placed 71 developments in service from January 1, 2007 to September 30, 2008 that provided incremental revenues of $18.6 million in the third quarter of 2008, as compared to the same period in 2007. The slight decrease in overall occupancy in our wholly owned in-service properties from 92.3%

to 87.6% was the result of some of these newly developed speculative properties not yet being fully leased, rather than from occupancy decreases in our existing base of rental properties.

Lease termination fees, which are included in rental revenue from continuing operations, decreased from $9.5 million in the third quarter of 2007 to $1.6 million in the third quarter of 2008.

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Rental Expenses and Real Estate Taxes

The following table reconciles rental expenses and real estate taxes by reportable segment to our total reported amounts in the statements of operations for the three months ended September 30, 2008 and 2007, respectively (in thousands):

	2008	2007
Rental Expenses:		
Office	**$ 39,151**	$ 37,815
Industrial	**5,988**	5,360
Non-reportable segments	**4,327**	2,651
Total	**$ 49,466**	$ 45,826
Real Estate Taxes:		
Office	**$ 17,838**	$ 16,948
Industrial	**7,585**	6,693
Non-reportable segments	**1,992**	1,721
Total	**$ 27,415**	$ 25,362

Of the overall $3.6 million increase in rental expenses in the third quarter of 2008, compared to the same period in 2007, $2.7 million was attributable to properties acquired and developments placed in service from January 1, 2007 to September 30, 2008.

Of the overall $2.1 million increase in real estate taxes in the third quarter of 2008, compared to the same period in 2007, $1.5 million was attributable to properties acquired and developments placed in service from January 1, 2007 to September 30, 2008. The remaining increase in real estate taxes was driven by tax increases in our existing base of properties throughout our different markets.

Interest Expense

Interest expense increased from $43.4 million in the third quarter of 2007 to $49.3 million in the third quarter of 2008 primarily due to a net increase in average unsecured debt outstanding during the third quarter of 2008 compared to the third quarter of 2007 and new debt being issued at higher overall borrowing rates than the debt maturing over the last twelve months.

Depreciation and Amortization

Depreciation and amortization expense increased from $71.4 million during the third quarter of 2007 to $75.1 million for the same period in 2008 due to increases in our held-for-rental asset base from acquisitions and developments during 2007 and 2008.

Service Operations

Service Operations consist primarily of sales of Build-for-Sale properties and the leasing, management, construction and development services for joint venture properties and properties owned by third parties. These operations are heavily influenced by the current state of the economy, as leasing and management fees are dependent upon occupancy while construction and development services rely on the expansion of business operations of third-party property owners. Earnings from Service Operations increased from $7.3 million for the three months ended September 30, 2007 to $21.7 million for the three months ended September 30, 2008. The increase was primarily the result of the gain on the sale of seven Build-for-Sale properties totaling $20.3 million in the three months ended September 30, 2008, compared to gains on the sale of one property totaling $1.1 million during the same period in 2007. Partially offsetting the aforementioned increase in gains on Build-for-Sale properties was an increase in our total cost estimate for a third-party fixed price construction contract, which reduced the margin on the contract and, therefore, reduced earnings from Service Operations.

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General and Administrative Expense

General and administrative expenses increased from $3.9 million for the three months ended September 30, 2007 to $10.4 million for the same period in 2008. General and administrative expenses consist of two components. The first component is direct expenses that are not attributable to specific assets such as legal fees, audit fees, marketing costs, investor relations expenses and other corporate overhead. The second component is the unallocated indirect costs determined to be unrelated to the operation of our owned properties and Service Operations. Those indirect costs not allocated to these operations are charged to general and administrative expenses. The increase in general and administrative expenses was due to a decrease in the amount of indirect costs allocated to leasing due to a decrease in both wholly owned and third-party leasing activity in the three months ended September 30, 2008 compared to the same period in 2007, as the third quarter of 2007 was a record leasing period for us. This was partially offset by a decrease in the overall pool of overhead costs in the third quarter of 2008, compared to the same period in 2007.

Discontinued Operations

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

The operations of 24 buildings are currently classified as discontinued operations for the three months ended September 30, 2008 and September 30, 2007. These 24 buildings consist of 18 industrial and 6 office properties. As a result, we classified net income (loss) from operations, net of minority interest, of $(165,000) and $299,000 in discontinued operations for each of the three months ended September 30, 2008 and 2007, respectively.

Of these properties, two were sold during the third quarter of 2008 and 15 were sold during the third quarter of 2007. The gains on disposal of these properties, net of minority interest, of $1.2 million and $37.2 million for the three months ended September 30, 2008 and 2007, respectively, are also reported in discontinued operations.

Comparison of Nine Months Ended September 30, 2008 to Nine Months Ended September 30, 2007

Rental Revenue From Continuing Operations

Overall, rental revenue from continuing operations increased from $598.9 million for the nine months ended September 30, 2007 to $641.8 million for the same period in 2008. The following table reconciles rental revenue from continuing operations by reportable segment to our total reported rental revenue from continuing operations for the nine months ended September 30, 2008 and 2007, respectively (in thousands):

	2008	2007
Rental Revenue:		
Office	**$ 427,393**	$ 420,930
Industrial	**184,691**	160,031
Non-reportable segments	**29,711**	17,917
Total	**$ 641,795**	$ 598,878

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The following factors contributed to these results:

We acquired 12 properties and placed 71 developments in service from January 1, 2007 to September 30, 2008 that provided incremental revenues of $53.4 million for the first nine months of 2008, as compared to the same period in 2007. The slight decrease in overall occupancy in our wholly owned in-service properties from 92.3% to 87.6% was the result of some of these newly developed speculative properties not yet being fully leased, rather than from occupancy decreases in our existing base of rental properties.

Lease termination fees, which are included in rental revenue from continuing operations, decreased from $14.7 million in the first nine months of 2007 to $6.6 million in the same period of 2008.

We contributed eight properties to an unconsolidated joint venture in 2007, resulting in an $11.0 million reduction in revenues for the nine months ended September 30, 2008, as compared to the same period in 2007. Of these properties, seven were contributed in the second quarter of 2007 and one was contributed in the fourth quarter of 2007.

The remaining increase in rental revenues is primarily the result of a $6.5 million increase in revenues from reimbursable rental expenses.

Rental Expenses and Real Estate Taxes

The following table reconciles rental expenses and real estate taxes by reportable segment to our total reported amounts in the statement of operations for the nine months ended September 30, 2008 and 2007, respectively (in thousands):

	2008	2007
Rental Expenses:		
Office	**$ 116,298**	$ 112,643
Industrial	**20,416**	17,858
Non-reportable segments	**10,765**	6,168
Total	**$ 147,479**	$ 136,669
Real Estate Taxes:		
Office	**$ 52,959**	$ 50,585
Industrial	**22,804**	19,248
Non-reportable segments	**6,830**	5,215
Total	**$ 82,593**	$ 75,048

Of the overall $10.8 million increase in rental expenses in the first nine months of 2008, compared to the same period in 2007, $7.9 million was attributable to properties acquired and developments placed in service from January 1, 2007 to September 30, 2008. Increases in utility costs and snow removal in our existing base of properties compared to the nine months ended September 30, 2007 also contributed to the increase in rental expenses.

Of the overall $7.5 million increase in real estate taxes in the first nine months of 2008, compared to the same period in 2007, $4.6 million was attributable to properties acquired and developments placed in service from January 1, 2007 to September 30, 2008. The remaining increase in real estate taxes was driven by tax increases in our existing base of properties throughout our different markets.

Interest Expense

Interest expense increased from $127.9 million for the nine months ended September 30, 2007 to $143.7 million for the same period in 2008 primarily due to a net increase in average unsecured debt borrowings during the nine months

ended September 30, 2008 compared to the nine months ended September 30, 2007 and new debt being issued at higher overall borrowing rates than the debt maturing over the last twelve months.

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Depreciation and Amortization

Depreciation and amortization expense increased from $204.6 million for the first nine months of 2007 to $228.1 million for the same period in 2008 primarily due to the following:

We recorded $5.8 million of additional depreciation expense in the first quarter of 2008 for a portfolio of properties that no longer met the criteria for being classified as held-for-sale.

Our held-for-rental asset base increased from acquisitions and developments during 2007 and 2008.

Service Operations

Earnings from Service Operations increased from $26.3 million for the nine months ended September 30, 2007 to $36.5 million for the nine months ended September 30, 2008. The increase was primarily a result of gains on the sale of nine Build-for-Sale properties totaling $26.7 million in the nine months ended September 30, 2008 compared to gains on the sale of six properties totaling $10.8 million for the nine months ended September 30, 2007. Partially offsetting the aforementioned increase in gains on Build-for-Sale properties was an increase in our total cost estimate for a third-party fixed price construction contract, which reduced the margin on the contract and, therefore, reduced earnings from Service Operations.

General and Administrative Expense

General and administrative expenses increased from $27.9 million for the nine months ended September 30, 2007 to $29.5 million for the same period in 2008. The increase in general and administrative expenses from the nine months ended September 30, 2007 is the result of a decrease in the allocation of costs to leasing activities due to a decrease in wholly owned leasing activity, in addition to an increase in the overall pool of indirect costs, partially offset by an increase in the allocation of costs to construction activities due to an increase in third-party construction volume.

Discontinued Operations

The operations of 39 buildings are currently classified as discontinued operations for the nine months ended September 30, 2008 and September 30, 2007. These 39 buildings consist of 20 industrial and 19 office properties. As a result, we classified net income from operations, net of minority interest, of $1.7 million and $4.1 million in discontinued operations for the nine months ended September 30, 2008 and 2007, respectively.

Of these properties, seven were sold during the first nine months of 2008 and 30 were sold during the first nine months of 2007. The gains on disposal of these properties, net of minority interest, of $11.3 million and $104.5 million for the nine months ended September 30, 2008 and 2007, respectively, are also reported in discontinued operations.

Liquidity and Capital Resources

Sources of Liquidity

We expect to meet our short-term liquidity requirements over the next 12 months, including payments of dividends and distributions, as well as recurring capital expenditures relating to maintaining our current real estate assets, primarily through working capital and proceeds received from real estate dispositions.

Although we historically have not used any other sources of funds to pay for recurring capital expenditures on our current real estate investments, we may rely on the temporary use of borrowings needed to fund such expenditures during periods of high leasing volume.

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We expect to meet long-term liquidity requirements, such as scheduled mortgage and unsecured debt maturities, property acquisitions, financing of development activities and other non-recurring capital improvements, primarily through the following sources:

undistributed cash provided by operating activities;

issuance of additional equity, including common and preferred shares;

issuance of additional debt securities;

proceeds received from real estate dispositions; and

transactions with unconsolidated entities.

In recognition of current economic conditions, we are constantly monitoring the state of the capital markets and accordingly managing our capital needs, such as development expenditures and commitments. We will continue to utilize Duke Realty Limited Partnership s (DRLP) $1.3 billion unsecured revolving line of credit to provide initial funding of new development expenditures and anticipate using multiple sources of capital including unsecured public debt, secured debt, preferred stock and private equity, as available, to meet our long-term capital needs.

Rental Operations

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

We are subject to risks of decreased occupancy through market conditions, as well as tenant defaults and bankruptcies, and potential reduction in rental rates upon renewal or re-letting of properties, each of which would result in reduced cash flow from operations. These risks may be heightened as a result of the current state of the economy. However, we believe that these risks may be mitigated by our relatively strong market presence in most of our markets and the fact that we perform in-house credit reviews and analyses on major tenants and all significant leases before they are executed.

Debt and Equity Securities

We use DRLP s line of credit to fund development activities, acquire additional rental properties and provide working capital.

At September 30, 2008, we had on file with the SEC an automatic shelf registration statement on Form S-3, relating to the offer and sale, from time to time, of an indeterminate amount of DRLP s debt securities (including guarantees thereof) and the Company s common shares, preferred shares, depository shares, warrants, stock purchase contracts and units comprised of one or more of these securities. From time to time, we expect to issue additional securities under this automatic shelf registration statement to fund development and acquisition of additional rental properties and to fund the repayment of the credit facility and other long-term debt upon maturity.

In May 2008, we issued $325.0 million of 6.25% senior unsecured notes due in May 2013. After taking into account the effect of forward starting swaps, which were designated as cash flow hedges for this offering, the notes had an effective interest rate of 7.36%.

The indentures (and related supplemental indentures) governing our outstanding series of notes require us to comply with financial ratios and other covenants regarding our operations. We were in compliance with all such covenants as well as applicable covenants under our unsecured line of credit, as of September 30, 2008.

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Sale of Real Estate Assets

We utilize sales of real estate assets as an additional source of liquidity. We pursue opportunities to sell real estate assets at favorable prices to capture value created by us, as well as to improve the overall quality of our portfolio by recycling sales proceeds into new properties with greater value creation opportunities.

We had entered into a preliminary agreement to sell a portfolio of 14 buildings in our Cleveland Office market in mid-2007. In the first quarter of 2008, the preliminary agreement was cancelled due to the potential buyer being unable to secure financing on acceptable terms. Our strategy is to operate these buildings through our Rental Operations until we are able to sell the buildings at a favorable price. The state of the current credit markets has made it more difficult for prospective buyers of our properties to obtain financing.

Transactions with Unconsolidated Entities

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

In May 2008, we entered into an unconsolidated joint venture that will acquire up to $800.0 million of our newly developed bulk industrial build-to-suit projects over the next three years. Properties will be sold to the joint venture upon completion, lease commencement and satisfaction of other customary conditions. We will retain a 20% equity interest in the joint venture. As of September 30, 2008, the joint venture has acquired five properties from us and we received year-to-date net sale proceeds and financing distributions of approximately $164.7 million.

In January 2008, we sold a tract of land to an unconsolidated joint venture in which we hold a 50% equity interest and received a distribution, commensurate to our partner s 50% ownership interest, of approximately $38.3 million.

Uses of Liquidity

Our principal uses of liquidity include the following:

property investment;

recurring leasing/capital costs;

dividends and distributions to shareholders and unitholders;

long-term debt maturities; and

other contractual obligations.

Property Investment

We evaluate development and acquisition opportunities based upon market outlook, supply and long-term growth potential. Our ability to make future property investments is dependent upon our continued access to our longer-term sources of liquidity including the issuances of debt or equity securities as well as disposing of selected properties. In light of current economic conditions, management continues to evaluate our investment priorities and we are limiting new development expenditures.

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Recurring Expenditures

One of our principal uses of our liquidity is to fund the recurring leasing/capital expenditures of our real estate investments. The following is a summary of our recurring capital expenditures for the nine months ended September 30, 2008 and 2007, respectively (in thousands):

	2008	2007
Recurring tenant improvements	**$ 28,075**	$ 32,987
Recurring leasing costs	**18,934**	22,771
Building improvements	**5,387**	4,894
Totals	**$ 52,396**	$ 60,652

Dividend and Distribution Requirements

We are required to meet the distribution requirements of the Internal Revenue Code of 1986, as amended, in order to maintain our REIT status. Because depreciation is a non-cash expense, cash flow will typically be greater than operating income. We paid distributions of $0.480 per common share in the first and second quarters of 2008, $0.485 per common share in the third quarter of 2008, and our Board of Directors declared dividends of $0.485 per share for the fourth quarter of 2008. Our future distributions will be declared at the discretion of our Board of Directors and will be subject to our future capital needs and availability.

At September 30, 2008, we had six series of preferred stock outstanding. The annual dividends on our preferred stock range between $1.63 and $2.09 per share and are paid in arrears quarterly.

Debt Maturities

Debt outstanding at September 30, 2008 totaled $4.4 billion with a weighted average interest rate of 5.66% maturing at various dates through 2028. We had $3.3 billion of unsecured notes, $533.7 million outstanding on our unsecured lines of credit and $520.0 million of secured debt outstanding at September 30, 2008. Scheduled principal amortization and maturities of such debt totaled $268.1 million for the nine months ended September 30, 2008.

The following is a summary of the scheduled future amortization and maturities of our indebtedness at September 30, 2008 (in thousands, except percentage data):

	Future Repayments			**Weighted Average Interest Rate of Future**
Year	**Scheduled Amortization**	**Maturities**	**Total**	**Repayments**
2008	$ 2,557	$ 9,940	$ 12,497	7.29%
2009	10,957	275,000	285,957	7.38%
2010	10,717	700,000	710,717	3.91%
2011	10,823	1,041,849	1,052,672	5.12%
2012	8,906	201,216	210,122	5.92%
2013	8,889	475,000	483,889	6.51%
2014	9,109	272,112	281,221	6.46%
2015	7,700		7,700	6.39%
2016	6,822	490,900	497,722	6.16%
2017	5,242	469,324	474,566	5.95%
2018	3,304	300,000	303,304	6.09%
Thereafter	27,500	50,000	77,500	7.03%
	$ 112,526	$ 4,285,341	$ 4,397,867	5.66%

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Historical Cash Flows

Cash and cash equivalents were $3.5 million and $18.4 million at September 30, 2008 and 2007, respectively. The following highlights significant changes in net cash associated with our operating, investing and financing activities (in millions):

	Nine Months Ended September 30,	
	2008	2007
Net Cash Provided by Operating Activities	$ 329.3	$ 135.3
Net Cash Provided by (Used for) Investing Activities	$(428.7)	$(145.2)
Net Cash Provided by (Used for) Financing Activities	$ 54.9	$ (40.2)

Operating Activities

Cash flows from operating activities provide the cash necessary to meet normal operational requirements of our Rental Operations and Service Operations activities. The receipt of rental income from Rental Operations continues to provide the primary source of our revenues and operating cash flows. In addition, we develop buildings with the intent to sell them at or soon after completion, which provides another significant source of operating cash flow activity. Highlights of such activities are as follows:

During the nine-month period ended September 30, 2008, we incurred Build-for-Sale property development costs of $159.2 million, compared to $238.6 million for the same period ended September 30, 2007. The difference is reflective of the decreased activity in our Build-for-Sale pipeline as there were certain large projects under development during the first half of 2007 that were placed in service in the third quarter of 2007. The pipeline of Build-for-Sale projects under construction as of September 30, 2008 has anticipated total costs upon completion of $562.9 million.

We sold nine Build-for-Sale properties in the first nine months of 2008, compared to six such properties sold in the same period in 2007, receiving net proceeds of $220.6 million and $83.1 million, respectively. We recognized pre-tax gains of $26.7 million and $10.8 million on these sales for the nine-month periods ended September 30, 2008 and 2007, respectively.

Investing Activities

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

Held-for-rental development costs increased to $365.8 million for the nine-month period ended September 30, 2008 from $324.3 million for the same period in 2007 largely as the result of the completion of several projects that we started in 2007.

During the first nine months of 2008, we paid cash of $20.1 million for real estate acquisitions and $35.6 million for undeveloped land acquisitions, compared to $82.4 million for real estate acquisitions and $155.6 million for acquisitions of undeveloped land in the same period in 2007.

Sales of land and depreciated property provided $85.7 million in net proceeds for the nine-month period ended September 30, 2008, compared to $405.1 million for the same period in 2007. Dispositions in the first nine months of 2007 included a portfolio of eight office properties in the Cleveland market for net proceeds of $139.3 million and a portfolio of twelve industrial properties in the St. Louis market for net proceeds of $64.2 million.

We received capital distributions (as a result of the sale of properties or refinancing) of $65.6 million from unconsolidated companies for the nine-month period ended September 30, 2008, compared to $207.5 million for the same period in 2007.

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Financing Activities

The following items highlight major fluctuations in net cash flow related to financing activities in the first nine months of 2008 compared to the same period in 2007:

In January 2008, we repaid $125.0 million of senior unsecured notes with an effective interest rate of 3.36% on their scheduled maturity date.

In February 2008, we received net proceeds of approximately $290.0 million from the issuance of shares of our Series O Cumulative Redeemable Preferred Stock; we had no new preferred equity issuances in the same period in 2007.

We decreased net borrowings on DRLP s $1.3 billion line of credit by $18.0 million for the nine months ended September 30, 2008, compared to a decrease of $15.0 million for the same period in 2007.

In March 2008, we settled three forward-starting swaps and made a cash payment of $14.6 million to the counterparties.

In May 2008, we repaid $100.0 million of senior unsecured notes with an effective interest rate of 6.76% on their scheduled maturity date.

In May 2008, we issued $325.0 million of senior unsecured notes due in May 2013 with an effective interest rate of 7.36%.

Contractual Obligations

Aside from changes in long-term debt, there have not been material changes in our outstanding commitments since December 31, 2007 as previously discussed in our 2007 Annual Report on Form 10-K. In most cases we may withdraw from land purchase contracts with the sellers only recourse being earnest money deposits already made.

Off Balance Sheet Arrangements Investments in Unconsolidated Companies

We analyze our investments in joint ventures under FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities* (FIN 46(R)), to determine if the joint venture is a variable interest entity (a VIE , as defined by FIN 46(R)) and would require consolidation. To the extent that our joint ventures do not qualify as VIEs, we further assess under the guidelines of Emerging Issues Task Force (EITF) No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity when the Limited Partners Have Certain Rights* (EITF 04-5); Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures;* Accounting Research Bulletin No. 51*, Consolidated Financial Statements* and SFAS No. 94, *Consolidation of All Majority-Owned Subsidiaries,* to determine if the venture should be consolidated.

We have equity interests in unconsolidated partnerships and joint ventures that own and operate rental properties and hold land for development. Our unconsolidated subsidiaries are primarily engaged in the operation and development of Industrial, Office and Retail real estate properties. These investments provide us with increased market share and tenant and property diversification. The equity method of accounting is used for these investments in which we have the ability to exercise significant influence, but not control, over operating and financial policies. As a result, the assets and liabilities of these joint ventures are not included on our balance sheet.

Our investments in and advances to unconsolidated companies represented approximately 9% and 8% of our total assets at September 30, 2008 and December 31, 2007, respectively. Total assets of our unconsolidated subsidiaries were $2.5 billion and $2.2 billion as of September 30, 2008 and December 31, 2007, respectively.

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The combined revenues of our unconsolidated subsidiaries totaled approximately $182.9 million and $156.7 million for the nine-month periods ended September 30, 2008 and September 30, 2007, respectively.

We have guaranteed the repayment of certain secured and unsecured loans of our unconsolidated subsidiaries and the outstanding balances on the guaranteed portion of these loans was approximately $263.5 million at September 30, 2008.

Recent Accounting Pronouncements

See Note 10 in our Financial Statements in Item 1.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

We are exposed to interest rate changes primarily as a result of our line of credit used to maintain liquidity and fund capital expenditures and expansion of our real estate investment portfolio and operations. We will face additional interest rate risk in the future as we refinance existing issues of unsecured notes. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve our objectives, we borrow primarily at fixed rates and may enter into derivative financial instruments such as interest rate swaps, caps and treasury locks in order to mitigate our interest rate risk on a related financial instrument. We do not enter into derivative or interest rate transactions for speculative purposes. Our two outstanding swaps were not significant to the Financial Statements in terms of notional amount or fair value at September 30, 2008.

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

	Remainder of 2008	2009	2010	2011	2012	Thereafter	Total	Fair Value
Fixed rate secured debt	$12,497	$ 10,247	$ 9,967	$ 22,177	$ 9,292	$ 445,687	$ 509,868	$ 472,750
Weighted average interest rate	7.29%	6.92%	6.85%	7.14%	6.67%	6.04%		
Variable rate secured debt	$	$ 710	$ 750	$ 785	$ 830	$ 5,215	$ 8,290	$ 8,290
Weighted average interest rate	N/A	10.85%	10.80%	10.76%	10.72%	11.53%		
Fixed rate unsecured notes	$	$275,000	$175,000	$1,021,000	$200,000	$1,675,000	$3,346,000	$2,934,012
Weighted average interest rate	N/A	7.39%	5.37%	5.08%	5.87%	6.29%		
Unsecured lines of credit	$	$	$525,000	$ 8,709	$	$	$ 533,709	$ 525,034
Rate at September 30, 2008	N/A	N/A	3.36%	4.28%	N/A	N/A		

As the table incorporates only those exposures that exist as of September 30, 2008, it does not consider those exposures or positions that could arise after that date. As a result, our ultimate realized gain or loss with respect to interest rate fluctuations will depend on the exposures that arise during the period, our hedging strategies at that time to the extent we are party to interest rate derivatives, and interest rates. Interest expense on our unsecured lines of credit will be affected by fluctuations in the LIBOR indices. The interest rate at such point in the future as we may renew, extend or replace our unsecured lines of credit will be heavily dependent upon the state of the credit

environment.

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Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

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

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

(b) Changes in Internal Control over Financial Reporting

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

Part II Other Information

Item 1. Legal Proceedings

From time to time, we are parties to a variety of legal proceedings and claims arising in the ordinary course of our businesses. While these matters generally are covered by insurance, there is no assurance that our insurance will cover any particular proceeding or claim. We presently believe that all of these proceedings to which we were subject as of September 30, 2008, taken as a whole, will not have a material adverse effect on our liquidity, business, financial condition or results of operations.

Item 1A. Risk Factors

In addition to the information set forth in this Report, you also should carefully review and consider the information contained in our other reports and periodic filings that we make with the SEC, including, without limitation the information contained under the caption Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2007, and in our Quarterly Reports on Form 10-Q filed after the date of such Annual Report. Those risk factors could materially affect our business, financial condition and results of operations.

The risks that we describe in our public filings are not the only risks that we face. Additional risks and uncertainties not currently known to us, or that we presently deem to be immaterial, also may materially adversely affect our business, financial condition and results of operations.

Other than the risk factors set forth below, there were no material changes during the period covered by this Report to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2007, or subsequent Quarterly Reports on
Form 10-Q.

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The solvency of financial institutions may limit our access to liquidity.

Approximately 47% of our outstanding debt will mature between now and December 31, 2011. The majority of these debt maturities are comprised of $750.0 million of unsecured notes, $575.0 million of exchangeable unsecured notes, $125.0 million of corporate unsecured debt and our $1.3 billion unsecured line of credit, which has a principal balance of $525.0 million outstanding as of September 30, 2008. The unsecured line of credit matures in January 2010 with a one-year extension available at our option. Given current economic conditions including, but not limited to, the credit crisis and related turmoil in the global financial system, we may be unable to refinance these obligations and could also potentially lose access to our current available liquidity under our unsecured line of credit if one or more participating lenders default on their commitments.

The SEC has proposed changes to the eligibility requirements for Form S-3 that could prevent us from issuing debt securities on our automatic shelf registration statement.

From time to time, DRLP issues debt securities pursuant to an automatic shelf registration statement on Form S-3. On July 1, 2008, the SEC issued a proposed rule that would revise the transaction eligibility criteria for registering primary offerings of non-convertible securities (like DRLP s debt securities) on Forms S-3. As proposed, the instructions to these forms would no longer refer to security ratings by a nationally recognized statistical rating organization as a transaction requirement to permit issuers to register primary offerings of non-convertible securities for cash. Instead, Form S-3 would be available to register primary offerings of non-convertible securities if the issuer has issued (as of a date within 60 days prior to the filing of the registration statement) for cash more than $1 billion in non-convertible securities, other than common equity, through registered primary offerings over the prior three years. Currently, DRLP relies on the eligibility standard for offerings of investment grade rated non-convertible debt securities in order to offer securities pursuant to an automatic shelf registration statement on Form S-3. The SEC s proposal would effectively eliminate this eligibility standard. Although we currently satisfy the SEC s proposed eligibility criteria (namely, having issued more than $1 billion of non-convertible debt in registered offerings over the most recent three years), it is possible that we may not meet this test in the future, in which case DRLP would not be eligible to issue securities on Form S-3. As a result, we would be unable to launch and price public offerings of debt securities on short notice using Form S-3 with the speed and efficiency necessary to take advantage of favorable market conditions.

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

(a) Unregistered Sales of Equity Securities

None

(b) Use of Proceeds

None

(c) Issuer Purchases of Equity Securities

From time to time, we repurchase our common shares under a $750 million repurchase program that initially was approved by the Board of Directors and publicly announced in October 2001 (the Repurchase Program). In October 2008, the Board of Directors adopted a resolution that reaffirmed management s authority to repurchase common shares and amended the Repurchase Program to include the repurchase of outstanding series of preferred shares, as well as any outstanding series of debt securities. The October 2008 resolution also limited management s authority to repurchase a maximum of $75.0 million of common shares, $75.0 million of debt securities and $25.0 million of preferred shares. The authority to repurchase such securities expires in October 2009. Under the Repurchase Program, we also execute share repurchases on an ongoing basis associated with certain employee elections under our compensation and benefit programs.

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The following table shows the share repurchase activity for each of the three months in the quarter ended September 30, 2008:

Month	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs
July		$	
August	68,150	$ 26.40	68,150
September	4,270	$ 26.94	4,270
Total	72,420	$ 26.43	72,420

(1) All 72,420 shares repurchased represent shares swapped to pay the exercise price of stock options.

The number of common shares that may yet be repurchased in the open market to fund shares purchased under our Employee Stock Purchase Plan, as amended, was 81,840 as of September 30, 2008.

Item 3. Defaults upon Senior Securities

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

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

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

Item 6. Exhibits

(a) Exhibits

3.1(i) Third Restated Articles of Incorporation of Duke Realty Corporation (filed as Exhibit 3.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, as filed with the SEC on May 13, 2003, File No. 001-09044, and incorporated herein by this reference).

3.1(ii) Amendment to the Third Restated Articles of Incorporation of Duke Realty Corporation, establishing the amount, terms and rights of the Company s 6.625% Series J Cumulative Redeemable Preferred Shares (filed as Exhibit 3 to the Company s Current Report on Form 8-K, as filed with the SEC on August 27,

2003, File No. 001-09044, and incorporated herein by this reference).

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3.1(iii) Amendment to the Third Restated Articles of Incorporation of Duke Realty Corporation, establishing the amount, terms and rights of the Company s 6.5% Series K Cumulative Redeemable Preferred Shares (filed as Exhibit 3 to the Company s Current Report on Form 8-K, as filed with the SEC on February 26, 2004, File No. 001-09044, and incorporated herein by this reference).

3.1(iv) Amendment to the Third Restated Articles of Incorporation of Duke Realty Corporation, establishing the amount, terms and rights of the Company s 6.6% Series L Cumulative Redeemable Preferred Shares (filed as Exhibit 3.1 of the Company s Current Report on Form 8-K, as filed with the SEC on November 29, 2004, File No. 001-09044, and incorporated herein by reference).

3.1(v) Amendment to the Third Restated Articles of Incorporation of Duke Realty Corporation, amending the Designating Amendment to the Third Restated Articles of Incorporation of Duke Realty Corporation, establishing the amount, terms and rights of the Company s 6.95% Series M Cumulative Redeemable Preferred Shares (filed as Exhibit 3.2 to the Company s Current Report on Form 8-K, as filed with the SEC on July 6, 2006, and incorporated herein by this reference).

3.1(vi) Amendment to the Third Restated Articles of Incorporation of Duke Realty Corporation, establishing the amount, terms and rights of the Company s 7.25% Series N Cumulative Redeemable Preferred Shares (filed as Exhibit 3.1 to the Company s Current Report on Form 8-K, as filed with the SEC on July 6, 2006, and incorporated herein by this reference).

3.1(vii) Amendment to the Third Restated Articles of Incorporation of Duke Realty Corporation, deleting Exhibits A, D, E, F, H and I and de-designating the related series of preferred shares (filed as Exhibit 3.1(viii) to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, as filed with the SEC on August 7, 2007, File No. 001-09044, and incorporated herein by this reference).

3.1(viii) Amendment to the Third Restated Articles of Incorporation of Duke Realty Corporation, deleting Exhibit B and de-designating the related series of preferred shares (filed as Exhibit 3.1(viii) to the Company s Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the SEC on February 29, 2008, File No. 001-09044, and incorporated herein by this reference).

3.1(ix) Amendment to the Third Restated Articles of Incorporation of Duke Realty Corporation, establishing the amount, terms and rights of Duke Realty Corporation s 8.375% Series O Cumulative Redeemable Preferred Shares (filed as Exhibit 3.1 to the Company s Registration Statement on Form 8-A, as filed with the SEC on February 22, 2008, File No. 001-09044, and incorporated herein by this reference).

3.1(x) Amendment to the Third Restated Articles of Incorporation of Duke Realty Corporation, deleting Exhibits C and de-designating the related Series C Junior Preferred Shares.*

3.2 (i) Third Amended and Restated Bylaws of Duke Realty Corporation (filed as Exhibit 3.2 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, as filed with the SEC on May 13, 2003, File No. 001-09044, and incorporated herein by this reference).

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3.2(ii)	Amendment No. 1 to the Third Amended and Restated By-Laws of Duke Realty Corporation (filed as Exhibit 3.1 to the Company s Current Report on Form 8-K, as filed with the SEC on February 7, 2008, File No. 001-09044, and incorporated herein by this reference).
11.1	Statement Regarding Computation of Earnings.**
12.1	Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.*
31.1	Rule 13a-14(a) Certification of the Principal Executive Officer and Principal Financial Officer.*
32.1	Section 1350 Certification of the Principal Executive Officer and Principal Financial Officer.*

* Filed herewith.

** Data required by Statement of Financial Accounting Standard No.128, *Earnings per Share*, is provided in Note 5 to the Consolidated Financial Statements included in this report.

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SIGNATURES

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

DUKE REALTY CORPORATION

Date: November 7, 2008

/s/ Dennis D. Oklak

Dennis D. Oklak
Chairman and Chief Executive Officer
(Principal Executive Officer and
Principal Financial Officer)

/s/ Mark Denien

Mark Denien
Senior Vice President, Corporate Controller
(Principal Accounting Officer)