FIRST TRUST/FIDAC MORTGAGE INCOME FUND
Form NSAR-B
December 29, 2006

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TITLE       VICE PRESIDENT
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* Includes real estate assets and net acquired lease-related intangible assets, including above or below market leases, but excludes other acquired working capital assets and liabilities.
** In-place yields of completed acquisitions are calculated as the current annualized net rental payments from space leased to tenants at the date of acquisition, divided by the acquisition price of the acquired real estate. Annualized net rental payments are comprised of base rental payments, excluding additional amounts payable by tenants as reimbursement for operating expenses, less current annualized operating expenses not recovered through tenant reimbursements.
*** Represents percentage of total square feet leased based on executed leases and without regard to whether the leases have commenced, at the date of acquisition.

As described in Note 5 to the consolidated financial statements included in Part I, Item 1 of this Report, a $63.0 million property was acquired during the nine months ended September 30, 2016 through a non-monetary distribution of its ownership interest from an unconsolidated joint venture, in connection with that joint venture's dissolution.

Building Dispositions

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

We sold 22 wholly owned buildings during the nine months ended September 30, 2016 and 153 wholly owned buildings during the year ended December 31, 2015. The following table summarizes the sales prices, in-place yields and percent leased, by product type, of these buildings (in thousands, except percentage data):

	Year-to-Date 2016 Dispositions					Full Year 2015 Dispositions				
Type	Sales Price	In-Place Yield*		Percent Occupied**		Sales Price	In-Place Yield*		Percent Occupied**	
Industrial	$135,517	6.3	%	96.7	%	$410,647	6.6	%	93.5	%
Medical Office	—	—	%	—	%	20,400	6.8	%	100.0	%
Non-reportable Rental Operations	233,134	7.8	%	84.2	%	1,310,538	7.2	%	85.5	%
Other	—	—	%	—	%	40,250	9.0	%	83.4	%
Total	$368,651	7.3	%	90.9	%	$1,781,835	7.1	%	88.7	%

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

** Represents percentage of total square feet leased based on executed leases where the leases have commenced.

Development

At September 30, 2016, we had 7.2 million square feet of property under development with total estimated costs upon completion of $588.8 million compared to 7.4 million square feet with total estimated costs upon completion of $692.2 million at September 30, 2015. The square footage and estimated costs include both consolidated properties and unconsolidated joint venture development activity at 100%.

31

The following table summarizes our properties under development at September 30, 2016 (in thousands, except percentage data):

Ownership Type	Square Feet	Percent Leased	Total Estimated Project Costs	Total Incurred to Date	Amount Remaining to be Spent
Consolidated properties	6,537	64%	$561,063	$267,462	$293,601
Unconsolidated joint venture property	708	—%	27,722	11,737	15,985
Total	7,245	58%	$588,785	$279,199	$309,586

Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Rental and related revenue from continuing operations	$206,848	$200,938	$609,171	$617,549
General contractor and service fee revenue	19,351	33,599	68,546	110,320
Operating income	152,453	119,703	380,377	389,169
General Partner				
Net income attributable to common shareholders	$112,014	$76,434	$264,388	$591,058
Weighted average common shares outstanding	351,856	345,256	348,341	344,986
Weighted average common shares and potential dilutive securities	358,981	352,150	355,405	352,013
Partnership				
Net income attributable to common unitholders	$113,145	$77,185	$267,058	$597,270
Weighted average Common Units outstanding	355,351	348,760	351,840	348,595
Weighted average Common Units and potential dilutive securities	358,981	352,150	355,405	352,013
General Partner and Partnership				
Basic income per common share or Common Unit:				
Continuing operations	$0.32	$0.22	$0.75	$0.49
Discontinued operations	$—	$—	$—	$1.22
Diluted income per common share or Common Unit:				
Continuing operations	$0.32	$0.22	$0.75	$0.49
Discontinued operations	$—	$—	$—	$1.21
Number of in-service consolidated properties at end of period	486	491	486	491
In-service consolidated square footage at end of period	118,604	114,837	118,604	114,837
Number of in-service joint venture properties at end of period	59	70	59	70
In-service joint venture square footage at end of period	13,269	19,145	13,269	19,145

Supplemental Performance Measures

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

These non-GAAP metrics are commonly used by industry analysts and investors as supplemental operating performance measures of REITs and are viewed by management to be useful indicators of operating performance. Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry analysts and investors have considered presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Management believes that the

32

use of FFO, PNOI and SPNOI, combined with net income (which remains the primary measure of performance), improves the understanding of operating results of REITs among the investing public and makes comparisons of REIT operating results more meaningful.

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

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

Funds From Operations

The National Association of Real Estate Investment Trusts ("NAREIT") created FFO as a non-GAAP supplemental measure of REIT operating performance. FFO, as defined by NAREIT, represents GAAP net income (loss), excluding extraordinary items as defined under GAAP, gains or losses from sales of previously depreciated real estate assets, impairment charges related to depreciable 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. We calculate FFO in accordance with the definition that was adopted by the Board of Governors of NAREIT.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income attributable to common shareholders of the General Partner	$112,014	$76,434	$264,388	$591,058
Add back: Net income attributable to noncontrolling interests - common limited partnership interests in the Partnership	1,131	751	2,670	6,212
Net income attributable to common unitholders of the Partnership	113,145	77,185	267,058	597,270
Adjustments:				
Depreciation and amortization	80,688	79,898	238,647	243,652
Company share of joint venture depreciation, amortization and other adjustments	3,772	12,501	11,664	22,247
Gain on dissolution of unconsolidated company	—	—	(30,697)	—
Impairment charges - depreciable property	3,042	—	3,042	864
Gains on depreciable property sales - wholly owned	(83,017)	(71,325)	(138,074)	(619,948)
Income tax benefit triggered by depreciable property sales	(359)	(3,350)	(173)	(934)
Gains on depreciable property sales - share of joint venture	(5,668)	(189)	(23,700)	(13,722)
FFO attributable to common unitholders of the Partnership	$111,603	$94,720	$327,767	$229,429
Additional General Partner Adjustments:				
Net income attributable to noncontrolling interests - common limited partnership interests in the Partnership	(1,131)	(751)	(2,670)	(6,212)
Noncontrolling interest share of adjustments	15	(176)	(604)	3,808
FFO attributable to common shareholders of the General Partner	$110,487	$93,793	$324,493	$227,025

The increase in FFO during the nine months ended September 30, 2016, compared to the nine months ended

33

September 30, 2015, was primarily the result of $82.6 million in losses on debt extinguishment that were recognized during the second quarter of 2015. Development properties being placed in service, operational improvements and lower interest expense also contributed to the increased FFO in 2016 as compared to the corresponding periods in 2015.

Property-Level Net Operating Income - Cash Basis

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

PNOI, as we calculate it, may not be directly comparable to similarly titled, but differently calculated, measures for other REITs. We believe that PNOI is another useful supplemental performance measure, as it is an input in many REIT valuation models and it provides a means by which to evaluate the performance of the properties within our Rental Operations segments.

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

Note 10 to the consolidated financial statements included in Part I, Item 1 of this Report shows a calculation of our PNOI for the three and nine months ended September 30, 2015 and 2016 and provides a reconciliation of PNOI for our Rental Operations segments to income from continuing operations before income taxes.

Same Property Net Operating Income - Cash Basis

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

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

We have defined our same-property portfolio, for the three months ended September 30, 2016, as those properties that have been owned and in operation throughout the twenty-four months ended September 30, 2016. In addition to excluding properties that have not been owned and in operation for the twenty-four months ended September 30, 2016, we have also excluded properties from our same-property portfolio where revenues from individual lease buyouts in excess of $250,000 have been recognized. A reconciliation of SPNOI to income from continuing operations before income taxes is presented as follows (in thousands):

	Three Months Ended September 30,		Percent
	2016	2015	Change
Income from continuing operations before income taxes	$112,104	$73,835	
Share of SPNOI from unconsolidated joint ventures	5,205	5,120	
PNOI excluded from the same property population	(25,559)	(16,636)	
Earnings from Service Operations	(2,169)	(3,905)	
Rental Operations revenues and expenses excluded from PNOI	(8,009)	(17,476)	
Non-Segment Items	40,908	74,975	
SPNOI	$122,480	$115,913	5.7 %

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

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

	Three Months Ended September 30,	
	2016	2015
Number of properties	459	459
Square feet (in thousands) (1)	104,194	104,194
Average commencement occupancy percentage (2)	97.7%	96.8%
Average rental rate - cash basis (3)	$4.85	$4.78

(1) Includes the total square feet of the consolidated properties that are in the same property population as well as 4.6 million square feet of space for unconsolidated joint ventures, which represents our ratable share of the 9.9 million total square feet of space for buildings owned by unconsolidated joint ventures that are in the same property population.

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

(3) Represents the average annualized contractual rent per square foot for the three-month periods ended September 30, 2016 and 2015 for tenants in occupancy in properties in the same property population. Cash rent does not include the tenant's obligation to pay property operating expenses and real estate taxes. If a tenant was within a free rent period at September 30, 2016 or 2015 its rent would equal zero for purposes of this metric.

Comparison of Three Months Ended September 30, 2016 to Three Months Ended September 30, 2015

Rental and Related Revenue

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

	Three Months Ended September 30,	
	2016	2015
Rental and related revenue:		
Industrial	$149,746	$136,276
Medical Office	45,353	39,911
Non-reportable Rental Operations and non-segment revenues	11,749	24,751
Total rental and related revenue from continuing operations	$206,848	$200,938
Rental and Related Revenue from Discontinued Operations	380	7
Total Rental and Related Revenue from Continuing and Discontinued Operations	$207,228	$200,945

The following factors contributed to the increase in rental and related revenue from continuing operations:

- We acquired four properties and placed 41 developments in service from January 1, 2015 to September 30, 2016, which provided incremental revenues of $13.0 million in the third quarter of 2016, as compared to the same period in 2015.
- Increased occupancy and rental rates within our same-property portfolio also resulted in an increase to rental and related revenue from continuing operations. Average commencement occupancy in our same-property portfolio increased by 0.9% from the three months ended September 30, 2015.
- The sale of 113 properties since January 1, 2015, which did not meet the criteria to be classified within discontinued operations, resulted in a decrease of $15.4 million to rental and related revenue from continuing operations in the

three months ended September 30, 2016, as compared to the same period in 2015, which partially offset the aforementioned increases to rental and related revenues.

Rental Expenses and Real Estate Taxes

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

35

	Three Months Ended September 30, 2016	2015
Rental expenses:		
Industrial	$11,604	$11,820
Medical Office	8,732	8,286
Non-reportable Rental Operations and non-segment expenses	5,748	10,031
Total rental expenses from continuing operations	$26,084	$30,137
Rental Expenses from Discontinued Operations	3	33
Total Rental Expenses from Continuing and Discontinued Operations	$26,087	$30,170
Real estate taxes:		
Industrial	$24,052	$20,475
Medical Office	5,444	4,342
Non-reportable Rental Operations and non-segment expenses	1,817	2,885
Total real estate tax expense from continuing operations	$31,313	$27,702
Real Estate Tax Expense from Discontinued Operations	—	17
Total Real Estate Tax Expense from Continuing and Discontinued Operations	$31,313	$27,719

Rental expenses from continuing operations decreased by $4.1 million during the three months ended September 30, 2016, compared to the same period in 2015. The decrease to rental expenses was primarily the result of sales of office properties, which have higher utility and other operating costs relative to industrial properties, that did not meet the criteria to be classified within discontinued operations.

Real estate tax expense from continuing operations increased by $3.6 million during the three months ended September 30, 2016, compared to the same period in 2015. The increase to real estate tax expense was mainly the result of industrial developments placed in service from January 1, 2015 to September 30, 2016 and increases in real estate taxes on our existing base of properties. These increases to real estate tax expense were partially offset by the impact of property sales that did not meet the criteria to be classified within discontinued operations.

Service Operations

The following table sets forth the components of net earnings from the Service Operations reportable segment (in thousands):

	Three Months Ended September 30, 2016	2015
Service Operations:		
General contractor and service fee revenue	$19,351	$33,599
General contractor and other services expenses	(17,182)	(29,694)
Net earnings from Service Operations	$2,169	$3,905

Service Operations primarily consist of the leasing, property management, asset management, development, construction management and general contractor services for joint venture properties and properties owned by third parties. Service Operations are heavily influenced by the current state of the economy, as leasing and property management fees are dependent upon occupancy, while construction and development services rely on the expansion of business operations of third-party property owners and joint venture partners. General contractor and service fee revenues, and net earnings from Service Operations, decreased during the three months ended September 30, 2016 as the result of lower third-party construction activity due to focusing our resources on wholly-owned development projects.

36

Depreciation and Amortization
Depreciation and amortization expense from continuing operations increased from $79.9 million for the three months ended September 30, 2015 to $80.7 million for the same period in 2016 primarily as the result of 41 developments placed in service since January 1, 2015. The impact of developments placed in service was partially offset by property dispositions that did not meet the criteria to be classified within discontinued operations.
Equity in Earnings (Loss)
Equity in earnings (loss) represents our ownership share of net income or loss from investments in unconsolidated companies that generally own and operate rental properties. Equity in earnings increased from a loss of $5.1 million for the three months ended September 30, 2015 to earnings of $12.0 million for the same period in 2016. During the three months ended September 30, 2016, we recorded $8.7 million to equity in earnings related to our share of the gains on sale of joint venture buildings and undeveloped land. The loss during the three months ended September 30, 2015 was primarily caused by the recognition of a $7.9 million impairment charge to write down the carrying value of our investment in an unconsolidated joint venture to fair value after we concluded during the period that a decline in the value of that investment, which was not temporary, had taken place.
Gain on Sale of Properties - Continuing Operations
The $82.7 million recognized as gain on sale of properties in continuing operations for the three months ended September 30, 2016 is the result of the gain from the sale of 13 properties. These properties did not meet the criteria for inclusion in discontinued operations.

The $71.3 million recognized as gain on sale of properties in continuing operations for the three months ended September 30, 2015 was the result of the gain from the sale of 16 properties. These properties did not meet the criteria for inclusion in discontinued operations.

General and Administrative Expenses
General and administrative expenses consist of two components. The first component includes general corporate expenses, and the second component includes the indirect operating costs not allocated to, or absorbed by, the development or Rental Operations of our wholly-owned properties or our Service Operations. The indirect operating costs that are either allocated to, or absorbed by, the development or Rental Operations of our wholly-owned properties, or our Service Operations, are primarily comprised of employee compensation, including related costs such as benefits and wage-related taxes, but also include other ancillary costs such as travel and information technology support. Total indirect operation costs, prior to any allocation or absorption, and general corporate expenses are collectively referred to as our overall pool of overhead costs.
Those indirect costs not allocated to or absorbed by these operations are charged to general and administrative expenses. We regularly review our total overhead cost structure relative to our leasing, development and construction volume and adjust the level of total overhead, generally through changes in our level of staffing in various functional departments, as necessary in order to control overall general and administrative expense.
General and administrative expenses increased from $11.3 million for the three months ended September 30, 2015 to $12.5 million for the same period in 2016. The following table sets forth the factors that led to the increase in general and administrative expenses (in millions):

General and administrative expenses - three-month period ended September 30, 2015	$11.3
Increase to overall pool of overhead costs	1.0
Increased absorption of costs by wholly owned leasing and development activities (1)	(1.2)
Decreased allocation of costs to Service Operations and Rental Operations	1.4
General and administrative expenses - three-month period ended September 30, 2016	$12.5

(1) We capitalized $4.0 million and $8.1 million of our total overhead costs to leasing and development, respectively, for consolidated properties during the three months ended September 30, 2016, compared to capitalizing $4.1 million and $6.8

37

million of such costs, respectively, for the three months ended September 30, 2015. Combined overhead costs capitalized to leasing and development totaled 33.7% and 31.3% of our overall pool of overhead costs for the three months ended September 30, 2016 and 2015, respectively.

Interest Expense

Interest expense allocable to continuing operations decreased from $41.6 million for the three months ended September 30, 2015 to $34.6 million for the three months ended September 30, 2016. The decrease to interest expense from continuing operations was primarily due to reducing total indebtedness by $444.9 million since June 30, 2015 as well as due to a lower overall weighted average cost of borrowing than in 2015.

We capitalized $3.5 million and $4.4 million of interest costs for the three months ended September 30, 2016 and 2015, respectively.

Acquisition-Related Activity

Acquisition-related activity decreased to an expense of $7,000 for the three months ended September 30, 2016 from an expense of $5.7 million for the three months ended September 30, 2015. Substantially all of the activity during the three months ended September 30, 2015 was related to a charge to earnings that resulted from an increase to the estimated fair value of the contingent consideration from a previous period's acquisition.

Debt Extinguishment

During the three months ended September 30, 2016, we redeemed the remaining $203.0 million of the outstanding 5.95% Senior Unsecured Notes. This redemption resulted in a loss on debt extinguishment of $6.2 million, which consisted of redemption premiums and the write-off of unamortized deferred financing costs.

Discontinued Operations

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

The operations of 62 buildings were classified as discontinued operations for both the three months ended September 30, 2016 and September 30, 2015. These 62 buildings consist of five industrial, 56 office, and one medical office properties. As a result, we classified operating income, before gain on sales, of $377,000 in discontinued operations for the three months ended September 30, 2016 compared to an operating loss, before gain on sales, of $43,000 in discontinued operations for the three months ended September 30, 2015.

The gains on disposal of these properties are also reported in discontinued operations, as presented in Note 11 to the consolidated financial statements included in this Report.

Comparison of Nine Months Ended September 30, 2016 to Nine Months Ended September 30, 2015

Rental and Related Revenue

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

	Nine Months Ended September 30,	
	2016	2015
Rental and related revenue:		
Industrial	$432,945	$419,391
Medical Office	130,713	120,213
Non-reportable Rental Operations and non-segment revenues	45,513	77,945
Total rental and related revenue from continuing operations	$609,171	$617,549
Rental and Related Revenue from Discontinued Operations	735	32,171
Total Rental and Related Revenue from Continuing and Discontinued Operations	$609,906	$649,720

The following factors contributed to the decrease in rental and related revenue from continuing operations:

- The sale of 113 properties, since January 1, 2015, which did not meet the criteria for inclusion within discontinued operations, resulted in a decrease of $50.6 million to rental and related revenue from continuing operations in the nine months ended September 30, 2016, as compared to the same period in 2015.
- We acquired four properties and placed 41 developments in service from January 1, 2015 to September 30, 2016, which provided incremental revenues of $28.5 million in the nine months ended September 30, 2016, as compared to the same period in 2015, which partially offset the overall decrease in rental and related revenue from continuing operations.
- Increased occupancy and rental rates within our same property portfolio also partially offset the impact of dispositions on rental and related revenue from continuing operations.

Rental Expenses and Real Estate Taxes

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

	Nine Months Ended September 30,	
	2016	2015
Rental expenses:		
Industrial	$36,358	$41,607
Medical Office	25,249	24,527
Non-reportable Rental Operations and non-segment revenues	19,485	30,221
Total rental expenses from continuing operations	$81,092	$96,355
Rental Expenses from Discontinued Operations	(6)	9,004
Total Rental Expenses from Continuing and Discontinued Operations	$81,086	$105,359
Real estate taxes:		
Industrial	$69,553	$63,734
Medical Office	15,501	13,537
Non-reportable Rental Operations and non-segment revenues	5,834	8,957
Total real estate tax expense from continuing operations	$90,888	$86,228
Real Estate Tax Expense from Discontinued Operations	—	3,445
Total Real Estate Tax Expense from Continuing and Discontinued Operations	$90,888	$89,673

Overall, rental expenses from continuing operations decreased by $15.3 million in the nine months ended September 30, 2016, compared to the same period in 2015. The decrease to rental expenses from continuing operations was primarily the result of sales of office properties, which have higher utility and other operating costs relative to industrial properties, that did not meet the criteria to be classified within discontinued operations. The impact of this decrease was partially offset by incremental expenses related to developments placed in service.

39

Overall, real estate tax expense from continuing operations increased by $4.7 million in the nine months ended September 30, 2016, compared to the same period in 2015. The increase to real estate tax expense from continuing operations was caused by the net effect of 41 developments placed in service from January 1, 2015 to September 30, 2016, and by increased real estate taxes for our existing base of properties, both partially offset by the impact of property sales that did not meet the criteria to be classified within discontinued operations.

Service Operations

The following table sets forth the components of net earnings from the Service Operations reportable segment (in thousands):

	Nine Months Ended September 30,	
	2016	2015
Service Operations:		
General contractor and service fee revenue	$68,546	$110,320
General contractor and other services expenses	(60,330)	(98,455)
Net earnings from Service Operations	$8,216	$11,865

General contractor and service fee revenues, and net earnings from Service Operations, decreased during the nine months ended September 30, 2016 due to less overall third party construction activity as we continue to focus our resources on wholly owned development projects.

Depreciation and Amortization

Depreciation and amortization expense decreased from $240.1 million during the nine months ended September 30, 2015 to $238.6 million for the same period in 2016, primarily as the result of asset dispositions since January 1, 2015 that were not classified within discontinued operations. The impact of asset dispositions was partially offset by new developments being placed in service.

Equity in Earnings

Equity in earnings increased from $16.3 million during the nine months ended September 30, 2015 to $37.4 million for the same period in 2016. During the nine months ended September 30, 2016, we recorded $25.2 million to equity in earnings related to our share of the gains on sale of joint venture buildings and undeveloped land or for sales of our interests in unconsolidated joint ventures. During the nine months ended September 30, 2015, three of our unconsolidated joint ventures sold properties for which we recorded $13.7 million to equity in earnings for our share of the net gains. We also recognized a $7.9 million impairment charge to write down the carrying value of our investment in an unconsolidated joint venture to fair value during the nine months ended September 30, 2015, after we concluded during the period that a decline in the value of that investment was not temporary.

Gain on Dissolution of Unconsolidated Company and Promote Income

As described in Note 5 to the consolidated financial statements included in Part I, Item 1 of this Report, we recognized a $30.7 million gain and $26.3 million of promote income related to the dissolution of Duke/Hulfish during the nine months ended September 30, 2016.

Gain on Sale of Properties - Continuing Operations

The $137.6 million recognized as gain on sale of properties in continuing operations for the nine months ended September 30, 2016 is comprised primarily of the gains from the sale of 22 properties. These properties did not meet the criteria for inclusion in discontinued operations.

The $202.2 million recognized as gain on sale of properties in continuing operations for the nine months ended September 30, 2015 is primarily comprised of the gains from the sale of 78 properties that did not meet the criteria for inclusion in discontinued operations.

Gain on Land Sales
We recognized $2.4 million of gains on sale of 145 acres of land, compared to $24.1 million of gains on sale of 383 acres of land, for the nine months ended September 30, 2016 and September 30, 2015, respectively.
Impairment Charges

We recognized impairment charges of $12.1 million on 174 acres of land, compared to impairment charges of $7.0 million on 122 acres of land, for the nine months ended September 30, 2016 and September 30, 2015, respectively. These impairment charges were the result of changes in the intended use, or plans for sale, for certain of our investments in undeveloped land.
We also recognized impairment charges of $3.0 million and $864,000 on buildings during the nine months ended September 30, 2016 and September 30, 2015, respectively.
General and Administrative Expense
General and administrative expenses decreased from $47.6 million for the nine months ended September 30, 2015 to $42.2 million for the same period in 2016. The following table sets forth the factors that led to the decrease in general and administrative expenses (in millions):

General and administrative expenses - nine months ended September 30, 2015	$47.6
Decrease to overall pool of overhead costs (1)	(10.5)
Increased absorption of costs by wholly owned leasing and development activities (2)	(1.3)
Decreased allocation of costs to Service Operations and Rental Operations (3)	6.4
General and administrative expenses - nine months ended September 30, 2016	$42.2

(1) Our total pool of overhead costs decreased between periods, largely due to lower salary and related costs, as the result of workforce reductions executed primarily in connection with the significant decrease in our investment in office properties that occurred in connection with a $1.1 billion office portfolio sale that took place in early April 2015. The nine month period ended September 30, 2015 included $7.4 million of overhead restructuring costs.
(2) We capitalized $16.7 million and $19.4 million of our total overhead costs to leasing and development, respectively, for consolidated properties during the nine months ended September 30, 2016, compared to capitalizing $18.3 million and $16.5 million of such costs, respectively, for the nine months ended September 30, 2015. Combined overhead costs capitalized to leasing and development totaled 32.3% and 28.4% of our overall pool of overhead costs for the nine months ended September 30, 2016 and 2015, respectively.
(3) The decrease in allocation of costs to Service Operations and Rental Operations resulted from a lower volume of third-party construction projects during the nine months ended September 30, 2016 as well as a lower allocation of property management and maintenance expenses to Rental Operations due to significantly decreasing our investment in office properties since early April 2015.
Interest Expense
Interest expense allocable to continuing operations decreased from $134.6 million for the nine months ended September 30, 2015 to $109.5 million for the nine months ended of September 30, 2016. The decrease to interest expense from continuing operations was primarily due to reducing total indebtedness by $1.44 billion since December 31, 2014 as well as due to a lower overall weighted average cost of borrowing than in 2015.
We capitalized $13.0 million of interest costs during the nine months ended September 30, 2016 compared to $11.4 million during the nine months ended September 30, 2015.
Debt Extinguishment
During the nine months ended September 30, 2016, we repurchased $72.0 million of our outstanding 5.95% Senior Unsecured Notes, through a tender offer, prior to their maturity date in February 2017 and redeemed the remaining$203.0 million of the outstanding 5.95% Senior Unsecured Notes after the completion of the tender. Together, the repurchase and the redemption resulted in a total loss on debt extinguishment of $8.7 million, which consisted of repurchase premiums, redemption premiums and the write-off of unamortized deferred financing costs.

41

During the nine months ended September 30, 2015, we repurchased $431.2 million of our outstanding unsecured notes. These repurchases were primarily the result of a tender offer that was completed in early April 2015. We also repaid certain secured loans prior to their scheduled maturity dates during the nine months ended September 30, 2015. We recognized a total loss on debt extinguishment of $82.6 million from these transactions during the nine months ended September 30, 2015, which included make-whole payments, repurchase premiums, prepayment premiums as well as the write-off of unamortized deferred financing costs.

Acquisition-Related Activity

Acquisition-related activity decreased to an expense of $82,000 during the nine months ended September 30, 2016 from an expense of $7.0 million during the nine months ended September 30, 2015. Substantially all of the activity in 2015 was related to a charge to earnings that resulted from an increase to the estimated fair value of the contingent consideration from a previous period's acquisition.

Discontinued Operations

The operations of 62 buildings were classified as discontinued operations for both the nine months ended September 30, 2016 and September 30, 2015. These 62 buildings consist of five industrial, 56 office and one medical office properties. As a result, we classified operating income, before gain on sales, of $741,000 and $10.5 million in discontinued operations for the nine months ended September 30, 2016 and 2015, respectively. The gains on disposal of these properties, and related income tax impact, are also reported in discontinued operations, as presented in Note 11 to the consolidated financial statements included in Part I, Item 1 of this Report.

Liquidity and Capital Resources

Sources of Liquidity

We expect to meet our short-term liquidity requirements over the next 12 months primarily through working capital, net cash provided by operating activities and proceeds received from real estate dispositions. Our short-term liquidity requirements include payments of dividends and distributions as well as the capital expenditures needed to maintain our current real estate assets. During the nine months ended September 30, 2016, we also received full repayment of the $200.0 million seller-financed mortgage from the buyers of an office portfolio that we sold in April 2015. We had no balance outstanding on the Partnership's $1.20 billion unsecured line of credit at September 30, 2016.

In addition to our existing sources of liquidity, we expect to meet long-term liquidity requirements, such as scheduled mortgage and unsecured debt maturities, property acquisitions, financing of development activities and other capital improvements, through multiple sources of capital including operating cash flow, proceeds from property dispositions, term loans and through accessing the public debt and equity markets.

Rental Operations

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

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

42

Unsecured Debt and Equity Securities

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

At September 30, 2016, we had on file with the SEC an automatic shelf registration statement on Form S-3 relating to the offer and sale, from time to time, of an indeterminate amount of debt and equity securities. Equity securities are offered and sold by the General Partner, and the net proceeds of such offerings are contributed to the Partnership in exchange for additional General Partner Units or Preferred Units. From time to time, we expect to issue additional securities under this automatic shelf registration statement to fund the repayment of long-term debt upon maturity and for other general corporate purposes.

The General Partner's previous ATM equity program, which allowed it to issue new common shares from time to time, was fully utilized in July 2016. On August 9, 2016, the General Partner entered into a new ATM equity program that allows it to issue new common shares from time to time, with an aggregate offering price of up to $200.0 million. During the nine months ended September 30, 2016, the General Partner issued a total of 8.3 million common shares pursuant to both of its ATM equity programs (including 5.1 million common shares under its old program and 3.2 million common shares under its new program) with an average issuance price of $25.92 per share, generating gross proceeds of approximately $216.2 million, and, after deducting commissions and other costs, net proceeds of approximately $213.6 million. As of September 30, 2016, the new ATM equity program still had $110.1 million worth of new common shares available to issue.

In June 2016, we issued $375.0 million of senior unsecured notes that bear interest at a stated interest rate of 3.25%, have an effective interest rate of 3.36%, and mature on June 30, 2026.

The Partnership has issued debt securities pursuant to certain indentures and related supplemental indentures, which also require us to comply with financial ratios and other covenants regarding our operations. We were in compliance with all such covenants, as well as applicable covenants under our unsecured line of credit, at September 30, 2016.

Sale of Real Estate Assets

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

We generated cash from proceeds from the sale of land and depreciable property totaling $369.1 million during the nine months ended September 30, 2016.

Transactions with Unconsolidated Joint Ventures

Transactions with unconsolidated joint ventures also provide a source of liquidity. From time to time we will sell properties to unconsolidated joint ventures, while retaining a continuing interest in that entity, and receive proceeds commensurate to those interests that we do not own. Additionally, unconsolidated joint ventures will from time to time obtain debt financing or sell properties and will then distribute to us, and our joint venture partners, all or a portion of the proceeds from such transactions. During the nine months ended September 30, 2016, our share of sale and debt financing distributions from unconsolidated joint ventures totaled $52.5 million.

Uses of Liquidity

Our principal uses of liquidity include the following:

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

Property Investment

Our overall strategy is to continue to increase our investment in quality industrial properties in both existing and select new markets and to continue to increase our investment in on-campus or hospital affiliated medical office properties. Pursuant to this strategy, we evaluate development and acquisition opportunities based upon our market outlook, including general economic conditions, supply and long-term growth potential. Our ability to make future property investments is dependent upon identifying suitable acquisition and development opportunities, and our continued access to our longer-term sources of liquidity, including issuances of debt or equity securities as well as generating cash flow by disposing of selected properties.

Leasing/Capital Costs

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

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

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

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

	Nine Months Ended September 30,	
	2016	2015
Second generation tenant improvements	$18,541	$21,978
Second generation leasing costs	18,902	19,471
Building improvements	1,726	4,239
Total second generation capital expenditures	$39,169	$45,688
Development of real estate investments	$308,199	$221,201
Other deferred leasing costs	$25,949	$26,940

The increase in capital expenditures for the development of real estate investments, from $221.2 million in the nine months ended September 30, 2015 to $308.2 million in the nine months ended September 30, 2016, was due to the timing of wholly-owned development activities.

The capital expenditures in the table above include the capitalization of internal overhead costs. We capitalized $16.7 million and $18.3 million of overhead costs related to leasing activities, including both first and second generation leases, during the nine months ended September 30, 2016 and 2015, respectively. We capitalized $19.4 million and $16.5 million of overhead costs related to development activities, including both development and

44

tenant improvement projects on first and second generation space, during the nine months ended September 30, 2016 and 2015, respectively. Combined overhead costs capitalized to leasing and development totaled 32.3% and 28.4% of our overall pool of overhead costs for the nine months ended September 30, 2016 and 2015, respectively. Further discussion of the capitalization of overhead costs can be found herein, in the discussion of general and administrative expenses in the Comparison of Nine Months Ended September 30, 2016 to Nine Months Ended September 30, 2015 section of Management's Discussion and Analysis of Financial Condition and Results of Operations as well as in the Critical Accounting Policies section of Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2015 Annual Report.

In addition to the capitalization of overhead costs, the totals for development of real estate assets in the table above include the capitalization of $13.0 million and $11.4 million of interest costs in the nine months ended September 30, 2016 and 2015, respectively.

The following table summarizes our second generation capital expenditures by reportable operating segment (in thousands):

	Nine Months Ended September 30,	
	2016	2015
Industrial	$33,091	$33,055
Medical Office	1,627	2,146
Non-reportable Rental Operations	4,451	10,487
Total	$39,169	$45,688

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

Dividend and Distribution Requirements

The General Partner is required to meet the distribution requirements of the Code, in order to maintain its REIT status. We paid dividends or distributions of $0.18 per common share or Common Unit in the first, second and third quarters of 2016, and the General Partner's board of directors declared dividends or distributions of $0.19 per common share or Common Unit for the fourth quarter of 2016. Our future dividends or distributions will be declared at the discretion of the General Partner's board of directors and will be subject to our future capital needs and availability.

Debt Maturities

Debt outstanding at September 30, 2016 had a face value totaling $3.02 billion with a weighted average interest rate of 4.69% and maturities at various dates through 2028. Of this total amount, we had $2.63 billion of unsecured debt, $386.5 million of secured debt and no balance on our unsecured line of credit at September 30, 2016. Scheduled principal amortization, maturities and early repayments of such debt totaled $700.4 million for the nine months ended September 30, 2016.

The following table is a summary of the scheduled future amortization and maturities of our indebtedness at September 30, 2016 (in thousands, except percentage data):

Year	Future Repayments Scheduled Amortization	Maturities	Total	Weighted Average Interest Rate of Future Repayments	
Remainder of 2016	$2,591	$—	$2,591	6.35	%
2017	9,260	66,035	75,295	5.88	%
2018	7,768	285,611	293,379	6.08	%
2019	6,936	397,976	404,912	7.85	%
2020	5,381	378,660	384,041	3.44	%
2021	3,416	259,047	262,463	3.99	%
2022	3,611	600,000	603,611	4.20	%
2023	3,817	250,000	253,817	3.75	%
2024	4,036	300,000	304,036	3.92	%
2025	3,938	—	3,938	5.53	%
2026	2,029	375,000	377,029	3.37	%
Thereafter	358	50,000	50,358	7.29	%
	$53,141	$2,962,329	$3,015,470	4.69	%

We anticipate generating capital to fund our debt maturities by using undistributed cash generated from our Rental Operations and property dispositions and by raising additional capital from future debt or equity transactions.

On October 20, 2016 we redeemed $129.5 million in unsecured notes that had a scheduled maturity in August of 2019.

Repurchases of Outstanding Debt

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

During the nine months ended September 30, 2016, we issued $375.0 million of senior unsecured notes that bear interest at a stated interest rate of 3.25%, have an effective interest rate of 3.36%, and mature on June 30, 2026. A portion of these proceeds were used to repurchase, through a tender offer, $72.0 million of our 5.95% Senior Unsecured Notes, for a cash payment of $74.5 million in June 2016. In July 2016, we redeemed the remaining $203.0 million of the 5.95% Senior Unsecured Notes, for a cash payment of $209.0 million.

Historical Cash Flows

Cash and cash equivalents were $110.2 million and $175.9 million at September 30, 2016 and 2015, respectively. The following table highlights significant changes in net cash associated with our operating, investing and financing activities (in millions):

	Nine Months Ended September 30, 2016	2015
General Partner		
Net Cash Provided by Operating Activities	$347.4	$278.2
Net Cash Provided by Investing Activities	$64.3	$1,147.4
Net Cash Used for Financing Activities	$(324.0)	$(1,267.7)
Partnership		
Net Cash Provided by Operating Activities	$347.4	$278.0
Net Cash Provided by Investing Activities	$64.3	$1,147.4
Net Cash Used for Financing Activities	$(324.0)	$(1,267.5)

Operating Activities

The receipt of rental income from Rental Operations continues to be our primary source of operating cash flows. The increase to cash flow provided by operating activities, compared to the nine months ended September 30, 2015, was due to lower cash paid for interest, as the result of the significant debt repayments that took place throughout 2015, newly developed properties being placed in service and improved operational performance.

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:

- During the nine months ended September 30, 2016, we paid cash of approximately $16.0 million and $77.6 million, respectively, for real estate and undeveloped land acquisitions, compared to $28.8 million and $39.9 million, respectively, for real estate and undeveloped land acquisitions in the same period in 2015.
- Real estate development costs were $308.2 million during the nine months ended September 30, 2016, compared to $221.2 million for the same period in 2015.
- Sales of land and depreciated property provided $369.1 million in net proceeds for the nine months ended September 30, 2016, compared to $1.53 billion for the same period in 2015.
- Second generation tenant improvements, leasing costs and building improvements totaled $39.2 million for the nine months ended September 30, 2016 compared to $45.7 million for the same period in 2015.
- For the nine months ended September 30, 2016, we received $52.5 million in capital distributions from unconsolidated joint ventures, compared to $68.9 million during the same period in 2015.
- During the nine months ended September 30, 2016, we also received a full repayment of a $200.0 million seller-financed mortgage from the buyers of an office portfolio that we sold in April 2015.

Financing Activities

The following items highlight some of the factors that account for the difference in net cash flow related to financing activities in the first nine months of 2016, compared to the same period in 2015:

- For the nine months ended September 30, 2016, we repaid the $71.0 million of net borrowings on the Partnership's unsecured line of credit, compared to the repayment of $106.0 million of net borrowings for the same period in 2015.
- During the nine months ended September 30, 2016, we repaid five secured loans for $346.4 million. We repaid sixteen secured loans, which included early repayment premiums of $4.2 million for five loans that were repaid prior to their scheduled maturity dates, for cash payments totaling $213.1 million during the same period in 2015.
- During the nine months ended September 30, 2016, through both a tender offer and the redemption of the remaining $203.0 million of the outstanding notes of the same series after the completion of the tender offer, we paid cash of $283.5 million to repay $275.0 million of 5.95% Senior Unsecured Notes. During the nine months ended September 30, 2015, we repaid a $250.0 million senior unsecured note at its maturity date. We also repurchased $431.2 million of unsecured notes with maturities ranging between 2017 and 2020, primarily through a tender offer, for cash payments totaling $508.3 million.
- During the nine months ended September 30, 2016, the General Partner issued 8.3 million common shares pursuant to its ATM equity program, for net proceeds of $213.6 million, compared to the issuance of 233,000 common shares under the General Partner's ATM equity program for net proceeds of $4.6 million during the same period in 2015.
- During the nine months ended September 30, 2016, we issued $375.0 million of senior unsecured notes that bear interest at a stated rate of 3.25%, have an effective rate of 3.36%, and mature on June 30, 2026 (the "2026 Notes").

Contractual Obligations

Aside from repayments of long-term debt and the issuance of the 2026 Notes described above, there have not been material changes in our outstanding commitments since December 31, 2015, as previously discussed in our 2015 Annual Report.

Off Balance Sheet Arrangements - Investments in Unconsolidated Companies

We analyze our investments in unconsolidated joint ventures to determine if they meet the criteria for classification as a VIE and would require consolidation. We (i) evaluate the sufficiency of the total equity at risk, (ii) review the voting rights and decision-making authority of the equity investment holders as a group and whether there are any guaranteed returns, protection against losses, or capping of residual returns within the group and (iii) establish whether activities within the venture are on behalf of an investor with disproportionately few voting rights in making this VIE determination. To the extent that we (i) are the sole entity that has the power to direct the activities of the VIE and (ii) have the obligation or rights to absorb the VIE's losses or receive its benefits, then we would be determined to be the primary beneficiary of the VIE and would consolidate it. At the end of each reporting period, we re-assess our conclusions as to which, if any, party within the VIE is considered the primary beneficiary. To the extent that our joint ventures do not qualify as VIEs, we further assess each joint venture partner's substantive participating rights to determine if the venture should be consolidated. There were no unconsolidated joint ventures that met the criteria to be a VIE at September 30, 2016.

We have equity interests in unconsolidated partnerships and limited liability companies that primarily own and operate rental properties and hold land for development. These unconsolidated joint ventures are primarily engaged in the operations and development of industrial, medical office and office real estate properties. These investments provide us with increased market share and tenant and property diversification. The equity method of accounting is used for these investments in which we have the ability to exercise significant influence, but not control, over operating and financial policies. As a result, the assets and liabilities of these entities are not included on our balance sheet. Our investments in and advances to unconsolidated subsidiaries represented approximately 4% of our total assets at both September 30, 2016 and December 31, 2015. Total assets of our unconsolidated subsidiaries were $951.4 million and $1.4 billion at September 30, 2016 and December 31, 2015, respectively. The combined revenues of our unconsolidated subsidiaries totaled $97.5 million and $136.7 million for the nine months ended September 30, 2016 and 2015, respectively.

We have guaranteed the repayment of certain secured and unsecured loans of our unconsolidated subsidiaries. The outstanding balances on the guaranteed portion of these loans totaled $52.7 million at September 30, 2016.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to interest rate changes primarily as a result of our line of credit and our long-term borrowings. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve our objectives, we borrow primarily at fixed rates. We do not enter into derivative or interest rate transactions for speculative purposes. We have one outstanding swap, which fixes the rate on one of our variable rate loans and is not significant to our financial statements at September 30, 2016.

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.

48

	Remainder of 2016	2017	2018	2019	2020	Thereafter	Face Value	Fair Value
Fixed rate secured debt	$ 1,985	$72,472	$4,783	$272,215	$3,583	$28,652	$383,690	$424,948
Weighted average interest rate	6.37 %	5.89 %	6.46 %	7.63 %	5.98 %	5.92 %	7.13 %	
Variable rate secured debt	$—	$300	$300	$300	$300	$1,600	$2,800	$2,800
Weighted average interest rate	N/A	0.96 %	0.96 %	0.96 %	0.96 %	0.96 %	0.96 %	
Fixed rate unsecured debt	$ 606	$2,523	$288,296	$132,397	$130,158	$1,825,000	$2,378,980	$2,566,046
Weighted average interest rate	6.26 %	6.26 %	6.08 %	8.33 %	6.74 %	3.96 %	4.61 %	
Variable rate unsecured notes	$—	$—	$—	$—	$250,000	$—	$250,000	$250,000
Rate at September 30, 2016	N/A	N/A	N/A	N/A	1.68%	N/A	1.68 %	

As the above table incorporates only those exposures that existed at September 30, 2016, it does not consider those exposures or positions that could arise after that date. As a result, the ultimate impact of interest rate fluctuations will depend on future exposures that arise, our hedging strategies at that time, to the extent we are party to interest rate derivatives, and interest rates. Interest expense on our unsecured line of credit, to the extent we have outstanding borrowings, and our variable rate unsecured notes will be affected by fluctuations in the LIBOR indices as well as changes in our credit rating. The interest rate at such point in the future as we may renew, extend or replace our unsecured line of credit will be heavily dependent upon the state of the credit environment.

Item 4. Controls and Procedures

Controls and Procedures (General Partner)

(a) Evaluation of Disclosure Controls and Procedures

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

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

(b) Changes in Internal Control over Financial Reporting

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

49

Controls and Procedures (Partnership)

(a) Evaluation of Disclosure Controls and Procedures

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

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

(b) Changes in Internal Control over Financial Reporting

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

50

Part II - Other Information

Item 1. Legal Proceedings
From time to time, we are parties to a variety of legal proceedings and claims arising in the ordinary course of our businesses. While these matters generally are covered by insurance, there is no assurance that our insurance will cover any particular proceeding or claim. We are not subject to any material pending legal proceedings other than routine litigation arising in the ordinary course of business. We presently believe that all of the proceedings to which we were subject as of September 30, 2016, 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 2015 Annual Report. The risks and uncertainties described in our 2015 Annual Report are not the only risks that we face. Additional risks and uncertainties not currently known to us, or that we presently deem to be immaterial, also may materially adversely affect our business, financial condition and results of operations.
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
(a) Unregistered Sales of Equity Securities
None
(b) Use of Proceeds
None
(c) Issuer Purchases of Equity Securities
From time to time, we repurchase our securities under a repurchase program that initially was approved by the General Partner's board of directors and publicly announced in October 2001 (the "Repurchase Program").
On January 27, 2016 the General Partner's board of directors adopted a resolution that amended and restated the Repurchase Program and delegated authority to management to repurchase a maximum of $100.0 million of the General Partner's common shares, $500.0 million of the Partnership's debt securities and $500.0 million of the General Partner's preferred shares, subject to the prior notification of the Chairman of the Finance Committee of the board of directors of planned repurchases within these limits. We did not repurchase any equity securities through the Repurchase Program during the three months ended September 30, 2016.
Item 3. Defaults upon Senior Securities

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

Item 4. Mine Safety Disclosures

Not applicable.
Item 5. Other Information

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

Item 6. Exhibits
(a) Exhibits

3.1	Sixth Amended and Restated Articles of Incorporation of the General Partner (filed as Exhibit 3.1 to the combined Current Report on Form 8-K of the General Partner and the Partnership as filed with the SEC on January 5, 2015, and incorporated herein by this reference).
3.2	Fourth Amended and Restated Bylaws of the General Partner (filed as Exhibit 3.2 to the General Partner's Current Report on Form 8-K as filed with the SEC on July 30, 2009, and incorporated herein by this reference).
3.3	Certificate of Limited Partnership of the Partnership, dated September 17, 1993 (filed as Exhibit 3.1(i) to the Partnership's Annual Report on Form 10-K for the year ended December 31, 2006 as filed with the SEC on March 13, 2007, and incorporated herein by this reference) (File No. 000-20625).
3.4 (i)	Fifth Amended and Restated Agreement of Limited Partnership of the Partnership (filed as Exhibit 3.2 to the combined Current Report on Form 8-K of the General Partner and the Partnership as filed with the SEC on May 5, 2014, and incorporated herein by this reference).
3.4 (ii)	First Amendment to Fifth Amended and Restated Agreement of Limited Partnership of the Partnership (filed as Exhibit 3.2 to the combined Current Report on Form 8-K of the General Partner and the Partnership as filed with the SEC on August 6, 2014, and incorporated herein by this reference).
3.4 (iii)	Second Amendment to Fifth Amended and Restated Agreement of Limited Partnership of the Partnership (filed as Exhibit 3.2 to the combined Current Report on Form 8-K of the General Partner and the Partnership as filed with the SEC on December 16, 2014, and incorporated herein by this reference).
3.4 (iv)	Third Amendment to Fifth Amended and Restated Agreement of Limited Partnership of the Partnership (filed as Exhibit 3.2 to the combined Current Report on Form 8-K of the General Partner and the Partnership as filed with the SEC on January 5, 2015, and incorporated herein by this reference).
3.4 (v)	Fourth Amendment to Fifth Amended and Restated Agreement of Limited Partnership of the Partnership (filed as Exhibit 3.1 to the combined Current Report on Form 8-K of the General Partner and the Partnership as filed with the SEC on January 29, 2015, and incorporated herein by this reference).
4.1	Specimen certificate for shares of common stock, $.01 par value (filed as Exhibit 4.1 to the combined Current Report on Form 8-K of the General Partner and the Partnership as filed with the SEC on July 28, 2016, and incorporated herein by this reference).
10.1	Form of Letter Agreement Regarding Executive Severance between the General Partner and Peter D. Harrington, dated July 1, 2016 (the form of which was filed as Exhibit 10.13 to the Combined Annual Report on Form 10-K of the General Partner and the Partnership as filed with the SEC on February 19, 2016, and incorporated herein by this reference).#
10.2	Equity Distribution Agreement, dated August 9, 2016, by and among the Company, the Operating Partnership, Barclays Capital Inc., BB&T Capital Markets, a division of BB&T Securities, LLC, Citigroup Global Markets Inc., J P Morgan Securities LLC, RBC Capital Markets, LLC, Scotia Capital (USA) Inc., and Wells Fargo Securities, LLC. (filed as Exhibit 1.1 to the Combined Current Report on Form 8-K of the General Partner and the Partnership as filed with the SEC on August 9, 2016, and incorporated herein by this reference).
11.1	Statement Regarding Computation of Earnings.***
12.1	Statement of Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Combined Fixed Charges and Preferred Dividends of the General Partner.*

12.2 Statement of Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Combined Fixed Charges and Preferred Distributions of the Partnership.*

31.1 Rule 13a-14(a) Certification of the Chief Executive Officer of the General Partner.*

31.2 Rule 13a-14(a) Certification of the Chief Financial Officer of the General Partner.*

31.3 Rule 13a-14(a) Certification of the Chief Executive Officer for the Partnership.*

31.4 Rule 13a-14(a) Certification of the Chief Financial Officer for the Partnership.*

32.1 Section 1350 Certification of the Chief Executive Officer of the General Partner.**

32.2 Section 1350 Certification of the Chief Financial Officer of the General Partner.**

32.3 Section 1350 Certification of the Chief Executive Officer for the Partnership.**

52

32.4	Section 1350 Certification of the Chief Financial Officer for the Partnership.**
101	The following materials from the General Partner's and the Partnership's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations and Comprehensive Income, (iii) the Consolidated Statements of Cash Flows, (iv) the Consolidated Statements of Changes in Equity, and (v) the Notes to Consolidated Financial Statements.

Represents management contract or compensatory plan or arrangement

* Filed herewith.

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

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

53

SIGNATURES

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

DUKE REALTY CORPORATION

/s/ James B. Connor
James B. Connor
President, Chief Executive Officer and Director

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

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

/s/ James B. Connor
James B. Connor
President, Chief Executive Officer and Director of the General Partner

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

Date: October 28, 2016