



# 2016

ANNUAL REPORT

**Duke**REALTY



# FINANCIAL HIGHLIGHTS

(in thousands, except per share amounts)

	2016	2015	2014
Consolidated revenues	\$ 903,227	\$ 981,981	\$ 1,167,735
Net income (loss) attributable to common shareholders	312,143	615,310	204,893
Funds from operations (FFO) - diluted	432,666	303,955	367,768
Core FFO - diluted	429,820	412,172	406,161
Adjusted FFO (AFFO) - diluted	378,094	354,710	330,019

## PER SHARE:

Net income (loss) - diluted	\$ 0.88	\$ 1.77	\$ 0.60
FFO - diluted	1.21	0.86	1.07
Core FFO - diluted	1.20	1.17	1.18
Regular dividends paid	0.73	0.69	0.68
Special dividends paid	0.00	0.20	0.00

## AT YEAR END:

Common stock price	\$ 26.56	\$ 21.02	\$ 20.20
Total market capitalization	12,444,365	10,672,926	11,479,529

*This annual report contains a number of forward-looking statements that are not necessarily indicative of future results. For more information, refer to the company's fourth quarter and full-year 2016 results and SEC filings on the Investor Relations section of our website. This report also references non-GAAP financial measures including funds from operations or FFO and Core FFO; adjusted funds from operations or AFFO; and net operating income or NOI. These financial measures are commonly used in the real estate industry, and we believe they provide useful information to investors when used in conjunction with GAAP measures. For a definition of these non-GAAP measures and reconciliations to their most directly comparable GAAP measures, refer to the company's fourth quarter and full-year results on the Investor Relations/Financials page at [www.dukerealty.com](http://www.dukerealty.com).*





**Jim Connor** | President and Chief Executive Officer | **Mark Denien** | Chief Financial Officer

## TO MY FELLOW SHAREHOLDERS

I'm pleased to report that 2016 was another outstanding year for Duke Realty. We achieved solid operational results, experienced strong growth through development, essentially completed our exit from the suburban office sector and strengthened our balance sheet. As a result, our company now boasts an industry-leading portfolio comprised of modern, high-performing industrial and healthcare assets, as well as a best-in-class balance sheet, putting us in a solid position for continued future success.

Clearly our business this past year benefited from strong demand for industrial space across the country. Modern bulk warehouse space was highly sought by both traditional customers of industrial distribution space looking to modernize their supply chain and, of course, the powerful direct and indirect demand forces of e-commerce. With demand outpacing supply in nearly every market, vacancy rates reached new lows and rental rates continued to increase.

On the medical real estate side of our business, we continued to see health systems expanding and building new facilities to make medical care more accessible and affordable for a larger percentage of the population.

But even in such a positive environment, success couldn't happen without the high-performing team we have at Duke Realty. I want to take this opportunity to express my sincere appreciation to all of our associates for their commitment to our company and the superior work they do each and every day.

I also want to extend my appreciation to our board of directors for their contributions this past year. Your guidance helped make for a smooth transition in leadership, and your unwavering support was invaluable during my first year as CEO of this great company.

While I will provide greater detail on all our 2016 accomplishments later in this report, I want to briefly highlight a few key metrics that are indicative of our operating strength. In 2016, we reached a record-high, 97.5 percent occupancy in our in-service portfolio. We also recorded rental rate growth on second-generation leases of 16.6 percent compared to 9.7 percent in 2015 and increased same-property net operating income by 6.0 percent from year-end 2015. These improvements fueled our 2.6 percent increase in core Funds from Operations (FFO) per share to \$1.20 compared to \$1.17 in 2015, in addition to a 5.0 percent increase, on a share adjusted basis, in Adjusted FFO (AFFO).

In light of these positive results, our Board of Directors voted for the second consecutive year to raise dividends to our shareholders. In October, they authorized a 5.6 percent increase in our quarterly dividend, raising it from \$0.18 to \$0.19, which translates into \$0.76 per share on an annualized basis.

With these successes as a backdrop, let's turn to our specific results in 2016.



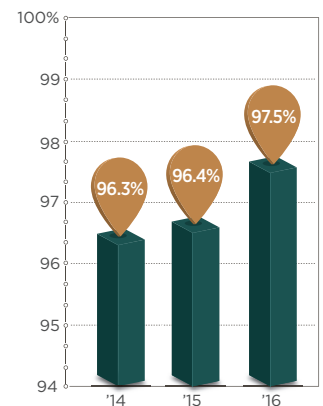
## STRONG PORTFOLIO PERFORMANCE

Throughout the year, our market-based teams did an exceptional job of keeping occupancy in our properties at high levels, quickly filling both speculative buildings and vacated space, and winning a large percentage of build-to-suit transactions while, at the same time, growing rental rates. We signed more than 27 million square feet of leases during 2016, with 14 million square feet in new leases and 13 million square feet in renewals, which represented a 78 percent tenant retention rate.

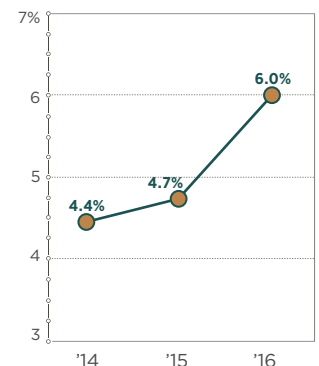
We ended 2016 with occupancy in our 128 million-square-foot, in-service portfolio at 97.5 percent, the highest level in our history and surpassing our 2015 occupancy rate by 110 basis points. We are particularly pleased with this metric given that we placed several warehouse properties in service this year that were developed on a speculative basis or only partially preleased. While the decision to build all of these properties was in accordance with our stringent guidelines for speculative development, our quick lease-up of these buildings is a direct result of the strength of our leasing team and quality of our assets.

Concurrent with increasing occupancy, our leasing team also focused on rental rate growth. As a result of their efforts, rental rates increased by 16.6 percent, compared to a 9.7 percent increase in 2015. In our industrial assets, rental rate growth was a record 16.7 percent for the year compared to 10.1 percent in 2015. Rental rate growth in our medical office properties grew by 14.4 percent, compared to 4.2 percent in 2015.

Our high portfolio occupancy and rental rate growth translated into an appreciable increase in same-property net operating income. For the 12 months ended December 31, 2016, same-property net operating income grew 6.0 percent compared to the 12-month period ended December 31, 2015.



**IN-SERVICE OCCUPANCY**



**SAME PROPERTY NOI GROWTH**





## EFFECTIVE INVESTMENT MANAGEMENT

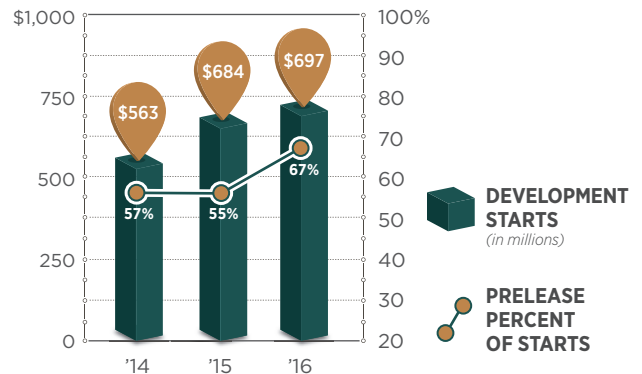
In 2016, we continued to review the composition of our portfolio and make adjustments to ensure that we have the highest quality assets with the best prospects for long-term performance. Land parcels and buildings that were identified as non-strategic or not in line with our quality specifications and return targets were marketed and sold at pricing accretive to our AFFO.

Total dispositions in 2016 totaled \$686 million at an average in-place cap rate of 7.1 percent. Consistent with our exit from the suburban office sector, 59 percent or \$402 million of the assets we sold were of this product type. As a result of these transactions, we have essentially completed our portfolio transformation to an industrial REIT with an incremental focus on medical office facilities. This composition is reflected in our year-end net operating income (NOI) results, with our industrial portfolio generating 78 percent of our NOI and medical office assets contributing 21 percent.

In addition to helping us fine-tune and raise the overall quality of our portfolio, these dispositions provided capital which we used to further improve our leverage position and fund our growth. We continued our strategy of leveraging our in-house development expertise and land bank to grow and increase our portfolio's value, while meeting market demand for modern, Class A space. In 2016, we started \$697 million of new development projects that were 67 percent preleased in the aggregate. Industrial projects accounted for 93 percent or \$648 million of these new buildings, while the balance was

medical office facilities. With our development starts this year, we were able to monetize \$148 million of land that we own.

A large percentage of our new industrial development projects were build-to-suit or significantly preleased before construction began. However, given strong demand and our lack of availability in a number of top-tier distribution markets, we also elected to start \$262 million in speculative projects. We maintained our conservative approach to speculative development, evaluating a number of factors to ensure our investment was warranted and taking care that our pipeline remained at least 50 percent preleased. We believe our reputation for quality development and our leasing team's capabilities will lead to a quick lease-up of these new projects and future earnings growth.



In 2016, we placed 7.1 million square feet of development projects in service that are 91% leased at year-end and have a stabilized GAAP yield of 7.5 percent. At the close of the year, we had another 9.4 million square feet under development, with stabilized project costs of \$734 million. These projects are 69 percent preleased in the aggregate and are expected to generate a 7.0 percent stabilized GAAP yield. When placed in service, these new developments will enhance the quality of our portfolio and are projected to provide long-term NOI growth through embedded rental rate increases.

Land sales also were part of our investment management activities. We successfully converted non-strategic and non-income generating sites into \$73 million of capital this year. These proceeds were redeployed into new development or used for deleveraging.

## SOUND FINANCIAL POSITION

We remained focused this year on strengthening our balance sheet by reducing leverage, extending and balancing debt maturities and maximizing liquidity. Dispositions continued to be an important source of capital for us, but we also opportunistically executed several capital market transactions. This past year, we issued 8.4 million common shares under our ATM program for net proceeds of \$216 million. We also raised \$375 million in unsecured debt at a coupon rate of 3.25 percent, the lowest rate on a 10-year issuance in our company's history, which we used to repurchase \$275 million in 5.95 percent unsecured notes that were due in early 2017. We also retired \$129.5 million of 8.25 percent unsecured notes that were due in 2019. These transactions significantly lowered our overall borrowing costs, better sequenced future debt maturities and funded our highly accretive development pipeline.

Chesapeake Commerce 1500 | Baltimore, Maryland



SCL Emerus Community Hospital | Littleton, Colorado



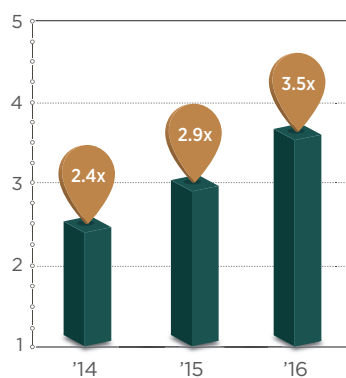
Butterfield 4000 | Chicago, Illinois



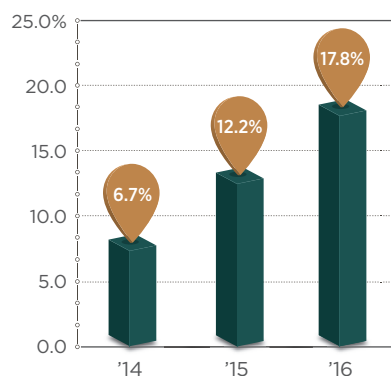
Legacy Commerce Center 901 | Linden, New Jersey







**FIXED CHARGE COVERAGE**



**3-YEAR CUMULATIVE AFFO GROWTH RATE (ON A SHARE ADJUSTED BASIS)**

With the improvements we made this year, we are proud to say that our balance sheet is now one of the best in the industry as reflected in our key financial metrics. Our fixed-charge coverage ratio improved to 3.5 times in 2016 from 2.9 times a year ago, and our debt to EBITDA declined from 5.8 times to 5.2 times. We also have improved our debt-to-market capitalization from 31 percent at the beginning of 2016 to 24 percent at the end of the year.

Our balance sheet improvements, along with our strong operating results, have enabled us to earn improved credit ratings and outperform our peers. In 2016, we received a ratings upgrade to Baal with a stable outlook from Moody's Investor Service and an increase to BBB+ with a stable outlook from Standard and Poor's. Fitch Ratings upgraded our senior unsecured credit rating to BBB+ with a stable outlook. Our total shareholder return of 30.4 percent for 2016 continues to outpace the overall REIT index at 8.6 percent and the S&P 500 at 12.0 percent.



## END OF AN ERA

After more than 30 years with Duke Realty, including 12 years as Chief Executive Officer and one year as Executive Chairman, Denny Oklak retired from the company on January 6, 2017.

During his time at Duke Realty, Denny was involved in several significant transactions that dramatically changed the company's operations and enabled it to grow its asset base and geographic footprint. In addition to being instrumental in Duke Realty's transition to a publicly traded company on the New York Stock Exchange and its expansion from a Midwest-based company to one with a coast-to-coast presence, Denny will be most remembered for his unfaltering leadership throughout the execution of the company's multi-year strategic plan to become an industrial-focused REIT, complemented by investments in select medical office properties, while strengthening its financial position.

As a result of Denny's foresight and guidance, Duke Realty today is one of the industry's leading performers and well-positioned for ongoing success and solid shareholder returns. On behalf of everyone associated with Duke Realty, thank you, Denny, for the many contributions you have made to our company.



## LOOKING AHEAD

Though no one can predict the future, particularly in light of a new administration in Washington, we remain optimistic about our prospects for ongoing positive performance. We have a solid balance sheet, our portfolio is the right mix of high-quality industrial and medical office assets structured for ongoing performance despite cyclicity and our team is a knowledgeable, dedicated group of professionals committed to the success of our company.

We intend to continue to leverage our development expertise and attractive land positions to grow our industrial portfolio. Located near key trucking, rail, shipping and air cargo corridors, our owned and controlled development parcels will support nearly 32 million square feet of future bulk industrial product. We also intend to focus on growing our portfolio in Tier 1 industrial markets. Though growth in these main industrial hubs is challenging because of limited land availability, we believe we can identify and successfully compete for attractive parcels that are ideal for bulk warehouse development, in addition to acquisition opportunities. We also believe our solid reputation for delivering efficient, effective facilities for many leading companies will serve us well as we compete for build-to-suit projects.

Development also will be used to grow our medical office portfolio. We have established strong relationships with many of the nation's leading healthcare systems that we believe will lead to additional business and are optimistic about our prospects for projects with new clients.



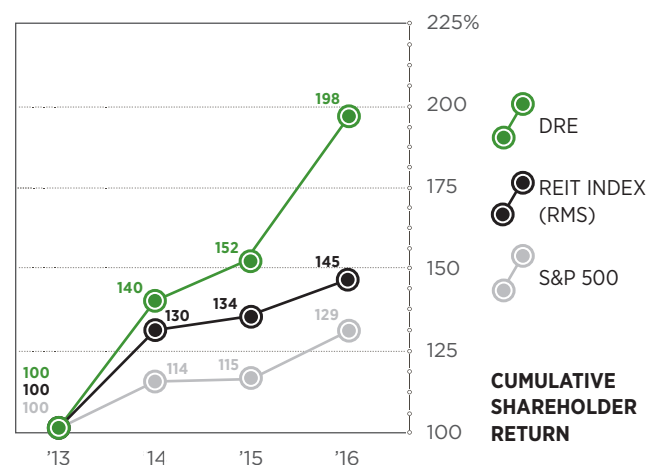


With the work we've done to reduce our debt and manage our maturities, we are in an excellent position to meet our obligations in the years ahead. The weighted average interest rate of our debt maturing over the next three years is 6.71 percent which is substantially in excess of our current borrowing rate, so we anticipate continuing to lower our overall borrowing rate. We also anticipate that both cash flow growth and improvements in our overall leverage profile will continue. In short, we believe that with our solid balance sheet we are well-positioned for continued earnings growth.

As we look ahead, we are focused on continued growth in our core FFO and AFFO which will allow us to continue to grow our dividends.

In closing, I would like to thank all of our shareholders for your investment in and support of our company. As we move forward, we will continue our efforts to strengthen our company and make Duke Realty a high-performing investment for all of you.

James B. Connor  
President and Chief Executive Officer







## BOARD OF DIRECTORS

**James B. Connor**

*President and Chief Executive Officer,  
Duke Realty*

**Dennis D. Oklak**

*Chairman; Retired Chairman and  
Chief Executive Officer, Duke Realty*

**William Cavanaugh III**

*Lead Director; Retired Chairman and  
Chief Executive Officer, Progress Energy, Inc.*

**Peter M. Scott**

*Retired Chief Financial Officer and Executive  
Vice President, Progress Energy, Inc.*

**Melanie R. Sabelhaus**

*Senior Principal, Jerold Panas, Linzy & Partners*

**Jack R. Shaw**

*Past President, The Regenstrief Foundation  
and Retired Managing Partner, Ernst & Young  
in Indianapolis, Indiana*

**Alan H. Cohen**

*Retired Co-Founder and Chairman,  
The Finish Line*

**Charles R. Eitel**

*Chief Executive Officer, WS Packaging Group, Inc.  
and Former Chairman and Chief Executive Officer,  
Simmons Bedding Company*

**Lynn C. Thurber**

*Non-Executive Chairman,  
LaSalle Investment Management*

**Ngaire E. Cuneo**

*Partner, Red Associates, LLC*

**Michael E. Szymanczyk**

*Retired Chairman and  
Chief Executive Officer, Altria Group*

**(Not Pictured)**

**Thomas J. Baltimore**

*Chief Executive Officer,  
Park Hotels and Resorts Inc.*



## LEADERSHIP TEAM

**Ann C. Dee**

*General Counsel*

**J. Samuel O'Briant**

*Executive Vice President, East Region*

**Mark A. Denien**

*Chief Financial Officer*

**Jeffrey D. Turner**

*Executive Vice President, West Region*

**Paul R. Quinn**

*Chief Information Officer and Strategic  
Execution Officer*

**Denise K. Dank**

*Chief Human Resources Officer*

**Steven W. Schnur**

*Executive Vice President, Central Region*

**Pete D. Harrington**

*Executive Vice President, Construction*

**Nicholas C. Anthony**

*Chief Investment Officer*

**Keith J. Konkoli**

*Executive Vice President, Healthcare*

**James B. Connor**

*President and Chief Executive Officer*



## HOW TO REACH US

### Corporate Headquarters

600 East 96th Street, Suite 100  
Indianapolis, Indiana 46240  
317.808.6000

### Transfer Agent and Registrar

Wells Fargo Shareholder Services  
1110 Centre Point Curve, Suite 101  
Mendota Heights, Minnesota 55120  
877.838.2877 (US)  
651.450.4064 (Outside US)  
[www.shareowneronline.com](http://www.shareowneronline.com)

### Investor Relations

Duke Realty Corporation  
Attn: Investor Relations  
600 East 96th Street, Suite 100  
Indianapolis, Indiana 46240  
317.808.6005 or 800.875.3366  
317.808.6794 (fax)  
[IR@dukerealty.com](mailto:IR@dukerealty.com)  
[www.dukerealty.com](http://www.dukerealty.com)

## GENERAL INFORMATION

Duke Realty Corporation's Direct Stock Purchase and Dividend Reinvestment Plan provides shareholders with an opportunity to conveniently acquire the company's common stock. Shareholders may have all or part of their cash dividends automatically reinvested, and may make optional cash payments toward the purchase of additional shares of common stock. Information regarding the Plan may be obtained from our transfer agent, Wells Fargo Shareholder Services at [www.shareowneronline.com](http://www.shareowneronline.com) or by calling 877.838.2877.

## ELECTRONIC DEPOSIT OF DIVIDENDS

Registered holders of Duke Realty Corporation's common stock may have their quarterly dividends deposited to their checking or savings account free of charge. Call the Investor Relations department at 317.808.6005 to sign up for this service.

## MARKET PRICE AND DIVIDENDS

### New York Stock Exchange: DRE

The table to the right sets forth the high and low prices of the company's common stock for the periods indicated and the dividend paid per share during such period.

### HOLDERS OF COMMON STOCK

As of February 13, 2017, there were 5,684 record holders of the company's common stock.

### 2016

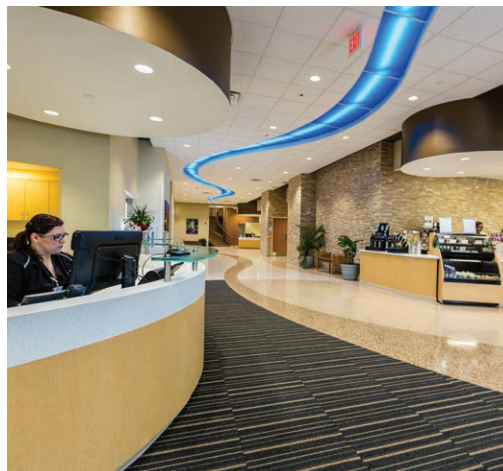
Quarter Ended	High	Low	Dividend
December 31	\$ 27.26	\$ 22.97	\$ 0.190
September 30	28.99	26.18	0.180
June 30	26.99	21.11	0.180
March 31	22.70	18.52	0.180

### 2015

Quarter Ended	High	Low	Dividend
December 31	\$ 21.46	\$ 18.84	\$ 0.180
September 30	20.42	17.60	0.170
June 30	22.25	18.49	0.170
March 31	22.70	19.93	0.170

On January 25, 2017, the company declared a quarterly cash dividend of \$0.19 per share, payable as of February 28, 2017 to common shareholders of record on February 16, 2017.





**Duke**REALTY

600 East 96th Street, Suite 100 | Indianapolis, IN 46240 | 317.808.6000 | [dukerealty.com](http://dukerealty.com)

