DUKE REALTY CORP
Form 10-K
February 29, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the fiscal year ended December 31, 2007**
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the transition period from to .**

Commission File Number: 1-9044

DUKE REALTY CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

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

Registrant s telephone number, including area code: (317) 808-6000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:	**Name of Each Exchange on Which Registered:**
Common Stock ($.01 par value)	New York Stock Exchange
Depositary Shares, each representing a 1/10 interest in a 6.625% Series J Cumulative Redeemable Preferred Share ($.01 par value)	New York Stock Exchange
Depositary Shares, each representing a 1/10 interest in a 6.5% Series K Cumulative Redeemable Preferred Share ($.01 par value)	New York Stock Exchange
Depositary Shares, each representing a 1/10 interest in a 6.6% Series L Cumulative Redeemable Preferred Share ($.01 par value)	New York Stock Exchange
Depositary Shares, each representing 1/10 interest in a 6.95%	

Series M Cumulative Redeemable Preferred Share ($.01 par value)	New York Stock Exchange
Depositary Shares, each representing 1/10 interest in a 7.25% Series N Cumulative Redeemable Preferred Share ($.01 par value)	New York Stock Exchange
Depositary Shares, each representing a 1/10 interest in an 8.375% Series O Cumulative Redeemable Preferred Share ($.01 par value)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The aggregate market value of the voting shares of the registrant s outstanding common shares held by non-affiliates of the registrant is $4.9 billion based on the last reported sale price on June 30, 2007.

The number of common shares, $.01 par value outstanding as of February 20, 2008 was 146,303,272.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of Duke Realty Corporation s Definitive Proxy Statement for its 2008 Annual Meeting of Shareholders (the Proxy Statement) to be filed pursuant to Rule 14a-6 of the Securities Exchange Act of 1934, as amended, are incorporated by reference into this Form 10-K. Other than those portions of the Proxy Statement specifically incorporated by reference pursuant to Items 10 through 14 of Part III hereof, no other portions of the Proxy Statement shall be deemed so incorporated.

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Cautionary Statement Regarding Forward-Looking Statements

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

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

- Changes in general economic and business conditions, including performance of financial markets;
- Our continued qualification as a real estate investment trust, or REIT , for U.S. federal income tax purposes;
- Heightened competition for tenants and potential decreases in property occupancy;
- Potential increases in real estate construction costs;
- Potential changes in the financial markets and interest rates;
- Volatility in our stock price and trading volume;
- Our continuing ability to raise funds on favorable terms through the issuance of debt and equity in the capital markets;
- Our ability to successfully identify, acquire, develop and/or manage properties on terms that are favorable to us;

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

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

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

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

This list of risks and uncertainties, however, is only a summary of some of the most important factors and is not intended to be exhaustive. Additional information regarding risk factors that may affect us is included under the caption Risk Factors in this Report, and is updated by us from time to time in Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other filings that we make with the SEC.

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

PART I

Item 1. Business

Background

We are a self-administered and self-managed real estate investment trust (REIT), which began operations upon completion of our initial public offering in February 1986. In October 1993, we completed an additional common shares offering and acquired the rental real estate and service businesses of Duke Associates, whose operations began in 1972. As of December 31, 2007, our diversified portfolio of 726 rental properties (including 38 properties comprising 10.0 million square feet under development) encompass more than 121.1 million rentable square feet and are leased by a diverse and stable base of more than 3,400 tenants whose businesses include manufacturing, retailing, wholesale trade, distribution, healthcare and professional services. We also own or control approximately 7,700 acres of unencumbered land ready for development.

Through our Service Operations, we provide, on a fee basis, leasing, property and asset management, development, construction, build-to-suit and other tenant-related services. See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 8, Financial Statements and Supplementary Data for financial information. Our Rental Operations are conducted through Duke Realty Limited Partnership (DRLP). In addition, we conduct our Service Operations through Duke Realty Services LLC, Duke Realty Services Limited Partnership and Duke Construction Limited Partnership. In this Form 10-K Report, the terms we, us and our refer to Duke Realty Corporation and subsidiaries (the Company) and those entities owned or controlled by the Company.

Our headquarters and executive offices are located in Indianapolis, Indiana. In addition, we have 21 regional offices located in Alexandria, Virginia; Atlanta, Georgia; Austin, Texas; Baltimore, Maryland; Cincinnati, Ohio; Columbus, Ohio; Chicago, Illinois; Dallas, Texas; Houston, Texas; Minneapolis, Minnesota; Nashville, Tennessee; Newport Beach, California; Orlando, Florida; Phoenix, Arizona; Raleigh, North Carolina; St. Louis, Missouri; San Antonio, Texas; Savannah, Georgia; Seattle, Washington; Tampa, Florida; and Weston, Florida. We had approximately 1,400 employees as of December 31, 2007.

Business Strategy

One of our primary business objectives is to increase Funds From Operations (FFO) by (i) maintaining and increasing property occupancy and rental rates through the management of our portfolio of existing properties; (ii) developing and acquiring new properties for our Rental Operations in our existing markets; (iii) expanding geographically by acquiring and developing properties in new markets; (iv) using our construction expertise to act as a general contractor in our existing markets and other domestic markets on a fee basis; (v) developing and repositioning properties in our existing markets and other markets which we will sell through our Service Operations property sale program and (vi) providing a full line of real estate services to our tenants and to third parties. FFO is used by industry analysts and investors as a supplemental operating performance measure of an equity REIT like Duke. FFO is calculated in accordance with the definition that was adopted by the Board of Governors of the National Association of Real Estate Investment Trusts (NAREIT). NAREIT created FFO as a supplemental measure of REIT operating performance that excludes historical cost depreciation, among other items, from net income determined in accordance with United States generally accepted accounting principles (GAAP). FFO is a non-GAAP financial measure developed by NAREIT to compare the operating performance of REITs. The most comparable GAAP measure is net income (loss). FFO should not be considered as a substitute for net income or any other measures derived in accordance with GAAP and may not be comparable to other similarly titled measures of other companies.

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

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

As a fully integrated commercial real estate firm, we provide in-house leasing, management, development and construction services which, coupled with our significant base of commercially zoned and unencumbered land in existing business parks, should give us a competitive advantage both as a real estate operator and in future development activities.

We believe that the management of real estate opportunities and risks can be done most effectively at regional or local levels. As a result, we intend to continue our emphasis on increasing our market share and effective rents in the primary markets where we own properties. We also expect to utilize approximately 7,700 acres of unencumbered land and our many business relationships with our more than 3,400 commercial tenants to expand our build-to-suit business (development projects substantially pre-leased to a single tenant) and to pursue other development and acquisition opportunities in our primary markets. We believe that this regional focus will allow us to assess market supply and demand for real estate more effectively as well as to capitalize on the strong relationships with our tenant base. In addition, we seek to further capitalize on strong customer relationships to provide third-party construction and build-for-sale services outside our primary markets and to expand into high growth and seaport markets across the United States.

Our strategy is to seek to develop and acquire primarily Class A commercial properties located in markets with high growth potential for large national and international companies and other quality regional and local firms. Our industrial and suburban office development focuses on business parks and mixed-use developments suitable for multiple projects on a single site where we can create and control the business environment. These business parks and mixed-use developments often include restaurants and other amenities, which we believe will create an atmosphere that is particularly efficient and desirable. As a fully integrated real estate company, we are able to arrange for or provide to our industrial, office and healthcare customers not only well located and well maintained facilities, but also additional services such as build-to-suit construction, tenant finish construction, and expansion flexibility.

All of our properties are located in areas that include competitive properties. Institutional investors, other REITs or local real estate operators generally own such properties; however, no single competitor or small group of competitors is dominant in our current markets. The supply and demand of similar available rental properties may affect the rental rates we will receive on our properties.

Financing Strategy

We seek to maintain a well-balanced, conservative and flexible capital structure by: (i) extending and sequencing the maturity dates of debt; (ii) borrowing primarily at fixed rates by targeting a variable rate component of total debt less than 20%; (iii) pursuing current and future long-term debt financings and refinancing on an unsecured basis; (iv) maintaining conservative debt service and fixed charge coverage ratios; (v) generating proceeds from the sale of non-strategic properties and (vi) issuing perpetual preferred stock for 5-10% of our total capital structure.

Management believes that these strategies have enabled and should continue to enable us to favorably access capital markets for our long-term requirements such as debt refinancing and financing development and acquisitions of additional rental properties. In addition, as discussed under Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, we have a $1.3 billion unsecured line of credit available for short-term funding of development and acquisition of additional rental properties. Further, we pursue favorable opportunities to dispose of assets that no longer meet our long-term investment criteria and recycle the proceeds into new investments that we believe have excellent long-term growth prospects. Our debt to total market capitalization ratio (total market capitalization is defined as the total market value of all outstanding common and preferred shares and units of limited partnership interest (Units) in DRLP plus outstanding indebtedness) at December 31, 2007 was 48.4%. Our ratio of earnings to debt service and ratio of earnings to fixed charges for the year ended December 31, 2007 were 1.58x and 1.47x, respectively. In computing the ratio of earnings to debt service, earnings have been calculated by adding interest expense (excluding amortization of debt issuance costs) to income from continuing operations, less preferred dividends, and minority interest in earnings of DRLP. Debt service consists of interest expense and recurring principal amortization (excluding maturities) and excludes amortization of debt issuance costs. In computing the ratio of earnings to fixed charges, earnings have been calculated by adding interest expense and minority interest in earnings from DRLP to income from continuing operations. Fixed charges consist of interest costs, whether expensed or capitalized, the interest component of rental expense and amortization of debt issuance costs.

Corporate Governance

Since our inception, we not only have strived to be a top-performer operationally, but also to lead in issues important to investors such as disclosure and corporate governance. Our system of governance reinforces this commitment. Summarized below are the highlights of our Corporate Governance initiatives.

Board Composition

- Board is controlled by supermajority (91.7%) of Independent Directors as of January 30, 2008 and thereafter

Board Committees

- Board Committee members are all Independent Directors

Lead Director

- The Chairman of the Corporate Governance Committee serves as Lead Director of the Independent Directors

Board Policies

- No Shareholder Rights Plan (Poison Pill)
- Code of Conduct applies to all Directors and employees, including the Chief Executive Officer and senior financial officers; waivers require the vote of Independent Directors
- Effective orientation program for new Directors
- Independence of Directors is reviewed annually
- Independent Directors meet at least quarterly in executive session
- Independent Directors receive no compensation from Duke other than as Directors
- Equity-based compensation plans require shareholder approval
- Board effectiveness and performance is reviewed annually by the Corporate Governance Committee
- Corporate Governance Committee conducts an annual review of the Chief Executive Officer succession plan
- Independent Directors and all Board Committees may retain outside advisors, as they deem appropriate
- Policy governing retirement age for Directors
- Outstanding stock options may not be repriced
- Directors required to offer resignation upon job change
- Majority voting for election of Directors

Ownership	Minimum Stock Ownership Guidelines apply to all Directors and Executive Officers

Our Code of Conduct (which applies to all Directors and employees, including the Chief Executive Officer and senior financial officers) and the Corporate Governance Guidelines are available in the investor information/corporate governance section of our website at www.dukerealty.com. A copy of these documents may also be obtained without charge by writing to Duke Realty Corporation, 600 East 96th Street, Suite 100, Indianapolis, Indiana 46240, Attention: Investor Relations.

Additional Information

For additional information regarding our investments and operations, see Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and Item 8, Financial Statements and Supplementary Data. For additional information about our business segments, see Item 8, Financial Statements and Supplementary Data.

Available Information and Exchange Certifications

In addition to this Annual Report, we file quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). All documents that are filed with the SEC are available free of charge on our corporate website, which is www.dukerealty.com. You may also read and copy any document filed at the public reference facilities of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at (800) SEC-0330 for further information about the public reference facilities. These documents also may be accessed through the SEC s electronic data gathering, analysis and retrieval system (EDGAR) via electronic means, including the SEC s home page on the Internet (http://www.sec.gov). In addition, since some of our securities are listed on the New York Stock Exchange, you may read SEC filings at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

The New York Stock Exchange (NYSE) requires that the Chief Executive Officer of each listed company certify annually to the NYSE that he or she is not aware of any violation by the company of NYSE corporate governance listing standards as of the date of such certification. We submitted the certification of our Chairman and Chief Executive Officer, Dennis D. Oklak, with our 2007 Annual Written Affirmation to the NYSE on May 16, 2007.

We included the certifications of the Chief Executive Officer and the Chief Financial Officer of the Company required by Section 302 of the Sarbanes-Oxley Act of 2002 and related rules, relating to the quality of the Company s public disclosure, in this report as Exhibits 31.1 and 31.2.

Item 1A. Risk Factors

In addition to the other information contained in this Report, you should carefully consider, in consultation with your legal, financial and other professional advisors, the risks described below, as well as the risk factors and uncertainties discussed in our other public filings with the SEC under the caption Risk Factors in evaluating us and our business before making a decision regarding an investment in our securities.

The risks contained in this Report are not the only risks faced by us. Additional risks that are not presently known, or that we presently deem to be immaterial, also could have a material adverse effect on our financial condition, results of operations, business and prospects. The trading price of our securities could decline due to the materialization of any of these risks, and our shareholders may lose all or part of their investment.

This Report also contains forward-looking statements that may not be realized as a result of certain factors, including, but not limited to, the risks described herein and in our other public filings with the SEC. Please refer to the section in this Report entitled Cautionary Notice Regarding Forward-Looking Statements for additional information regarding forward-looking statements.

If we were to cease to qualify as a REIT, we and our shareholders would lose significant tax benefits.

We intend to continue to operate so as to qualify as a REIT under the Internal Revenue Code of 1986, as amended (the Code). Qualification as a REIT provides significant tax advantages to us and our shareholders. However, in order for us to continue to qualify as a REIT, we must satisfy numerous requirements established under highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations. Satisfaction of these requirements also depends on various factual circumstances not entirely within our control. The fact that we hold our assets through an operating partnership and its subsidiaries further complicates the application of the REIT requirements. Even a technical or inadvertent mistake could jeopardize our REIT status. Although we believe that we can continue to operate so as to qualify as a REIT, we cannot offer any assurance that we can continue to do so or that legislation, new regulations, administrative interpretations or court decisions will not significantly change the qualification requirements or the federal income tax consequences of qualification. If we were to fail to qualify as a REIT in any taxable year, it would have the following effects:

- We would not be allowed a deduction for distributions to shareholders and would be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates;

- Unless we were entitled to relief under certain statutory provisions, we would be disqualified from treatment as a REIT for the four taxable years following the year during which we ceased to qualify as a REIT;

- Our net earnings available for investment or distribution to our shareholders would decrease due to the additional tax liability for the year or years involved; and

- We would no longer be required to make any distributions to shareholders in order to qualify as a REIT.

As such, failure to qualify as a REIT would likely have a significant adverse effect on the value of our securities.

REIT distribution requirements limit the amount of cash we will have available for other business purposes, including amounts that we need to fund our future growth.

To maintain our qualification as a REIT under the Code, we must annually distribute to our shareholders at least 90% of our ordinary taxable income, excluding net capital gains. We intend to continue to make distributions to our shareholders to comply with the 90% distribution requirement. However, this requirement limits our ability to accumulate capital for use for other business purposes. If we do not have sufficient cash or other liquid assets to meet the distribution requirements, we may have to borrow funds or sell properties on adverse terms in order to meet the distribution requirements. If we fail to make a required distribution, we would cease to qualify as a REIT.

U.S. federal income tax developments could affect the desirability of investing in us for individual taxpayers.

In May 2003, federal legislation was enacted that reduced the maximum tax rate for dividends payable to individual taxpayers generally from 38.6% to 15% (from January 1, 2003 through 2008). However, dividends payable by REITs are not eligible for this treatment, except in limited circumstances. Although this legislation did not have a direct adverse effect on the taxation of REITs or dividends paid by REITs, the more favorable treatment for non-REIT dividends could cause individual investors to consider investments in non-REIT corporations as more attractive relative to an investment in us as a REIT.

U.S. federal income tax treatment of REITs and investments in REITs may change, which may result in the loss of our tax benefits of operating as a REIT.

The present U.S. federal income tax treatment of a REIT and an investment in a REIT may be modified by legislative, judicial or administrative action at any time. Revisions in U.S. federal income tax laws and interpretations of these laws could adversely affect us and the tax consequences of an investment in our common shares.

Our net earnings available for investment or distribution to shareholders could decrease as a result of factors outside of our control.

Our business is subject to the risks incident to the ownership and operation of commercial real estate, many of which involve circumstances not within our control. Such risks include the following:

- Changes in the general economic climate;
- Increases in interest rates;
- Local conditions such as oversupply of property or a reduction in demand;
- Competition for tenants;
- Changes in market rental rates;
- Oversupply or reduced demand for space in the areas where our properties are located;

- Delay or inability to collect rent from tenants who are bankrupt, insolvent or otherwise unwilling or unable to pay;
- Difficulty in leasing or re-leasing space quickly or on favorable terms;
- Costs associated with periodically renovating, repairing and reletting rental space;
- Our ability to provide adequate maintenance and insurance on our properties;
- Our ability to control variable operating costs;
- Changes in government regulations;
- Changes in interest rate levels;
- The availability of financing on favorable terms; and
- Potential liability under, and changes in, environmental, zoning, tax and other laws.

Further, a significant portion of our costs, such as real estate taxes, insurance and maintenance costs and our debt service payments, are generally not reduced when circumstances cause a decrease in cash flow from our properties.

Many real estate costs are fixed, even if income from properties decreases.

Our financial results depend on leasing space in our real estate to tenants on terms favorable to us. Our income and funds available for distribution to our stockholders will decrease if a significant number of our tenants cannot pay their rent or we are unable to lease properties on favorable terms. In addition, if a tenant does not pay its rent, we may not be able to enforce our rights as landlord without delays and we may incur substantial legal costs. Costs associated with real estate investment, such as real estate taxes and maintenance costs, generally are not reduced when circumstances cause a reduction in income from the investment.

Our real estate development activities are subject to risks particular to development.

We intend to continue to pursue development activities as opportunities arise. These development activities generally require various government and other approvals. We may not receive the necessary approvals. We are subject to the risks associated with development activities. These risks include:

- Unsuccessful development opportunities could result in direct expenses to us;
- Construction costs of a project may exceed original estimates, possibly making the project less profitable than originally estimated, or possibly unprofitable;
- Time required to complete the construction of a project or to lease up the completed project may be greater than originally anticipated, thereby adversely affecting our cash flow and liquidity;
- Occupancy rates and rents of a completed project may not be sufficient to make the project profitable; and
- Favorable sources to fund our development activities may not be available.

We are exposed to risks associated with entering new markets.

We consider entering new markets from time to time. The construction and/or acquisition of properties in new markets involves risks, including the risk that the property will not perform as anticipated and the risk that any actual costs for rehabilitation, repositioning, renovation and improvements identified in the pre-construction or pre-acquisition due diligence process will exceed estimates. There is, and it is expected that there will continue to be, significant competition for investment opportunities that meet our investment criteria as well as risks associated with obtaining financing for acquisition activities, if necessary.

We may be unsuccessful in operating completed real estate projects.

We face the risk that the real estate projects we develop or acquire will not perform in accordance with our expectations. This risk exists because of factors such as the following:

- Prices paid for acquired facilities are based upon a series of market judgments; and

- Costs of any improvements required to bring an acquired facility up to standards to establish the market position intended for that facility might exceed budgeted costs.

Further, we can give no assurance that acquisition targets meeting our guidelines for quality and yield will be available when we seek them.

Our use of joint ventures may limit our flexibility with jointly owned investments.

In appropriate circumstances, we intend to develop and acquire properties in joint ventures with other persons or entities when circumstances warrant the use of these structures. We currently have joint ventures that are not consolidated with our financial statements. Our participation in joint ventures is subject to the risks that:

- We could become engaged in a dispute with any of our joint venture partners that might affect our ability to develop or operate a property;

- Our joint venture partners may have different objectives than we have regarding the appropriate timing and terms of any sale or refinancing of properties; and

- Our joint venture partners may have competing interests in our markets that could create conflict of interest issues.

We are exposed to the risks of defaults by tenants.

Any of our tenants may experience a downturn in their businesses that may weaken their financial condition. In the event of default or the insolvency of a significant number of our tenants, we may experience a substantial loss of rental revenue and/or delays in collecting rent and incur substantial costs in enforcing our rights as landlord. If a tenant files for bankruptcy protection, a court could allow the tenant to reject and terminate its lease with us. Our income and distributable cash flow would be adversely affected if a significant number of our tenants became unable to meet their obligations to us, became insolvent or declared bankruptcy.

We may be unable to renew leases or relet space.

When our tenants decide not to renew their leases upon their expiration, we may not be able to relet the space. Even if our tenants do renew or we are able to relet the space, the terms of renewal or reletting (including the cost of renovations, if necessary) may be less favorable than current lease terms. If we are unable to promptly renew the leases or relet the space, or if the rental rates upon such renewal or reletting are significantly lower than current rates, then our income and distributable cash flow would be adversely affected, especially if we were unable to lease a significant amount of the space vacated by tenants in our properties.

Our insurance coverage on our properties may be inadequate.

We maintain comprehensive insurance on each of our facilities, including property, liability, fire, flood and extended coverage. We believe this coverage is of the type and amount customarily obtained for real property. However, there are certain types of losses, generally of a catastrophic nature, such as earthquakes, hurricanes and floods or acts of war or terrorism that may be uninsurable or not economically insurable. We use our discretion when determining amounts, coverage limits and deductibles for insurance. These terms are determined based on retaining an acceptable level of risk at a reasonable cost. This may result in insurance coverage that in the event of a substantial loss would not be sufficient to pay the full current market value or current replacement cost of our lost investment. Inflation, changes in building codes and ordinances, environmental considerations and other factors also may make it unfeasible to use insurance proceeds to replace a facility after it has been damaged or destroyed. Under such circumstances, the insurance proceeds we receive may not be adequate to restore our economic position in a property. If an insured loss occurred, we could lose both our investment in and anticipated profits and cash flow from a property, and we would continue to be obligated on any mortgage indebtedness or other obligations related to the property. Although we believe our insurance is with highly rated providers, we are also subject to the risk that such providers may be unwilling or unable to pay our claims when made.

Acquired properties may expose us to unknown liability.

From time to time, we may acquire properties subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities. As a result, if a liability were asserted against us based upon ownership of those properties, we might have to pay substantial sums to settle or contest it, which could adversely affect our results of operations and cash flow. Unknown liabilities with respect to acquired properties might include:

- liabilities for clean-up of undisclosed environmental contamination;

- claims by tenants, vendors or other persons against the former owners of the properties;
- liabilities incurred in the ordinary course of business; and
- claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

We could be exposed to significant environmental liabilities as a result of conditions of which we currently are not aware.

As an owner and operator of real property, we may be liable under various federal, state and local laws for the costs of removal or remediation of certain hazardous substances released on or in our property. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of the hazardous substances. In addition, we could have greater difficulty in selling real estate on which hazardous substances were present or in obtaining borrowings using such real estate as collateral. It is our general policy to have Phase I environmental audits performed for all of our properties and land by qualified environmental consultants. These Phase I environmental audits have not revealed any environmental liability that would have a material adverse effect on our business. However, a Phase I environmental audit does not involve invasive procedures such as soil sampling or ground water analysis, and we cannot be sure that the Phase I environmental audits did not fail to reveal a significant environmental liability or that a prior owner did not create a material environmental condition on our properties or land which has not yet been discovered. We could also incur environmental liability as a result of future uses or conditions of such real estate or changes in applicable environmental laws.

Certain of our officers hold units in our operating partnership and may not have the same interests as our shareholders with regard to certain tax matters.

Certain of our officers own limited partnership units in our operating partnership, Duke Realty Limited Partnership. Owners of limited partnership units may suffer adverse tax consequences upon the sale of certain of our properties, the refinancing of debt related to those properties or in the event we are the subject of a tender offer or merger. As such, owners of limited partnership units, including certain of our officers, may have different objectives regarding the appropriateness of the pricing and timing of these transactions. Though we are the sole general partner of the operating partnership and have the exclusive authority to sell all of our wholly-owned properties or to refinance such properties, officers who hold limited partnership units may influence us not to sell or refinance certain properties even if such sale may be financially advantageous to our shareholders. Adverse tax consequences may also influence the decisions of these officers in the event we are the subject of a tender offer or merger.

Our use of debt financing could have a material adverse effect on our financial condition.

We are subject to the risks normally associated with debt financing, including the risk that our cash flow will be insufficient to meet required principal and interest payments and the risk that we will be unable to refinance our existing indebtedness, or that the terms of such refinancing will not be as favorable as the terms of our existing indebtedness. If our debt cannot be paid, refinanced or extended, we may not be able to make distributions to shareholders at expected levels or at all. Further, if prevailing interest rates or other factors at the time of a refinancing result in higher interest rates or other restrictive financial covenants upon the refinancing, then such refinancing would adversely affect our cash flow and funds available for operation, development and distribution. We are also subject to financial covenants under our existing debt instruments. Should we fail to comply with the covenants in our existing debt instruments, then we would not only be in breach under the applicable debt instruments but we would also likely be unable to borrow any further amounts under these instruments, which could adversely affect our ability to fund operations. We also have incurred and may incur in the future indebtedness that bears interest at variable rates. Thus, as market interest rates increase, so will our debt expense, affecting our cash flow and our ability to make distributions to shareholders.

Financial covenants under existing credit agreements could limit our flexibility and adversely affect our financial condition.

The terms of our various credit agreements and other indebtedness require that we comply with a number of customary financial and other covenants, such as maintaining debt service coverage and leverage ratios and maintaining insurance coverage. These covenants may limit our flexibility in our operations, and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness even if we have satisfied our payment obligations. If we are unable to refinance our indebtedness at maturity or meet our payment obligations, the amount of our distributable cash flow would be adversely affected.

Debt financing may not be available and equity issuances could be dilutive to the Company s shareholders.

The Company s ability to execute its business strategy depends on its access to an appropriate blend of debt financing, including unsecured lines of credit and other forms of secured and unsecured debt, and equity financing, including common and preferred equity. Debt financing may not be available in sufficient amounts, or on favorable terms or at all. If the Company issues additional equity securities to finance developments and acquisitions instead of incurring debt, the interests of existing shareholders could be diluted.

Our stock price and trading volume may be volatile, which could result in substantial losses to our shareholders.

The equity securities markets have from time to time experienced volatility, creating highly variable and unpredictable pricing of equity securities. The market price of our capital stock could change in ways that may or may not be related to our business, our industry or our operating performance and financial condition. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock include recent uncertainty in the markets, general market and economic conditions, as well as those factors described in these Risk Factors and in other reports that we file with the SEC.

Many of these factors are beyond our control, and we cannot predict their potential effects on the price of our securities. If the market price of our securities decline, then our shareholders may be unable to resell their securities upon terms that are attractive to them. We cannot assure that the market price of our securities will not fluctuate or decline significantly in the future. In addition, the securities markets in general can experience considerable unexpected price and volume fluctuations.

We may issue debt and equity securities which are senior to our common stock and preferred stock as to distributions and in liquidation, which could negatively affect the value of our common and preferred stock.

In the future, we may attempt to increase our capital resources by entering into debt or debt-like financing that is unsecured or secured by certain of our assets, or issuing debt or equity securities, which could include issuances of secured or unsecured commercial paper, medium-term notes, senior notes, subordinated notes, preferred stock or common stock. In the event of our liquidation, our lenders and holders of our debt securities would receive a distribution of our available assets before distributions to the holders of our common stock and preferred stock. Our preferred stock has a preference over our common stock with respect to distributions and upon liquidation, which could further limit our ability to make distributions to our common shareholders. Any additional preferred stock that we may issue may have a preference over our common stock and existing series of preferred stock with respect to distributions and upon liquidation.

Our leverage strategy may require us to seek substantial amounts of commercial credit and issue debt securities to support our asset growth. Because our decision to incur debt and issue securities in our future offerings will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings and debt financings. Further, market conditions could require us to accept less favorable terms for the issuance of our securities in the future. Thus, our shareholders will bear the risk of our future offerings reducing the value of their shares of common stock and diluting their interest in us. We may change this leverage strategy from time to time without shareholder approval.

If we are unable to generate sufficient capital and liquidity, then we may be unable to pursue future development projects and other strategic growth initiatives.

To complete our ongoing and planned development projects, and to pursue our other strategic growth initiatives, we must continue to generate sufficient capital and liquidity to fund those activities. To generate that capital and liquidity, we rely upon funds from our existing operations, as well as funds that we raise through our capital raising activities. In the current economic environment, REITs like ours have faced earnings pressures that have made it more difficult to generate capital and liquidity from existing operations. In addition, due to the recent crises in the credit and liquidity markets, it has become increasingly difficult to raise capital and generate liquidity through the sale of equity and/or debt securities on favorable terms, if at all. In the event that we are unable to generate sufficient capital and liquidity to meet our short- and long-term needs, or if we are unable to generate capital and liquidity on terms that are favorable to us, then we may be required to curtail our proposed development projects, as well as our other strategic and growth initiatives.

We are subject to certain provisions that could discourage change-of-control transactions, which may reduce the likelihood of our shareholders receiving a control premium for their shares.

Indiana anti-takeover legislation and certain provisions in our governing documents, as we discuss below, may discourage potential acquirers from pursuing a change-of-control transaction with us. As a result, our shareholders may be less likely to receive a control premium for their shares.

Unissued Preferred Stock. Our charter permits our board of directors to classify unissued preferred stock by setting the rights and preferences of the shares at the time of issuance. This power enables our board to adopt a shareholder rights plan, also known as a poison pill. Although we have repealed our previously existing poison pill and our current board of directors has adopted a policy not to issue preferred stock as an anti-takeover measure, our board can change this policy at any time. The adoption of a poison pill would discourage a potential bidder from acquiring a significant position in the company without the approval of our board.

Business-Combination Provisions of Indiana Law. We have not opted out of the business-combination provisions of the Indiana Business Corporation Law. As a result, potential bidders may have to negotiate with our board of directors before acquiring 10% of our stock. Without securing board approval of the proposed business combination before crossing the 10% ownership threshold, a bidder would not be permitted to complete a business combination for five years after becoming a 10% shareholder. Even after the five-year period, a business combination with the significant shareholder would require a fair price as defined in the Indiana Business Corporation Law or the approval of a majority of the disinterested shareholders.

Control-Share-Acquisition Provisions of Indiana Law. We have not opted out of the provisions of the Indiana Business Corporation Law regarding acquisitions of control shares. Therefore, those who acquire a significant block (at least 20%) of our shares may only vote a portion of their shares unless our other shareholders vote to accord full voting rights to the acquiring person. Moreover, if the other shareholders vote to give full voting rights with respect to the control shares and the acquiring person has acquired a majority of our outstanding shares, the other shareholders would be entitled to special dissenters rights.

Supermajority Voting Provisions. Our charter prohibits business combinations or significant disposition transactions with a holder of 10% of our shares unless:

- The holders of 80% of our outstanding shares of capital stock approve the transaction;
- The transaction has been approved by three-fourths of those directors who served on the board before the shareholder became a 10% owner; or
- The significant shareholder complies with the fair price provisions of our charter.

Among the transactions with large shareholders requiring the supermajority shareholder approval are dispositions of assets with a value greater than or equal to $1,000,000 and business combinations.

Operating Partnership Provisions. The limited partnership agreement of the Operating Partnership contains provisions that could discourage change-of-control transactions, including a requirement that holders of at least 90% of the outstanding partnership units held by us and other unit holders approve:

- Any voluntary sale, exchange, merger, consolidation or other disposition of all or substantially all of the assets of the Operating Partnership in one or more transactions other than a disposition occurring upon a financing or refinancing of the Operating Partnership;
- Our merger, consolidation or other business combination with another entity unless after the transaction substantially all of the assets of the surviving entity are contributed to the Operating Partnership in exchange for units;
- Our transfer of our interests in the Operating Partnership other than to one of our wholly owned subsidiaries; and
- Any reclassification or recapitalization or change of outstanding shares of our common stock other than certain changes in par value, stock splits, stock dividends or combinations.

We are dependent on key personnel.

Our executive officers and other senior officers have a significant role in the success of our Company. Our ability to retain our management group or to attract suitable replacements should any members of the management group leave our Company is dependent on the competitive nature of the employment market. The loss of services from key members of the management group or a limitation in their availability could adversely impact our financial condition and cash flow. Further, such a loss could be negatively perceived in the capital markets.

Item 1B. Unresolved Staff Comments

We have no unresolved comments with the SEC staff regarding our periodic or current reports under the Exchange Act.

Item 2. Properties

Product Review

As of December 31, 2007, we own interests in a diversified portfolio of 726 commercial properties encompassing more than 121.1 million net rentable square feet (including 38 properties comprising 10.0 million square feet under development) and approximately 7,700 acres of land for future development.

Industrial Properties: We own interests in 411 industrial properties encompassing more than 84.6 million square feet (70% of total square feet) more specifically described as follows:

- **Bulk Warehouses** Industrial warehouse/distribution buildings with clear ceiling heights of 20 feet or more. We own 358 buildings totaling approximately 81.2 million square feet of such properties.

- **Service Center Properties** Also known as flex buildings or light industrial, this product type has 12-18 foot clear ceiling heights and a combination of drive-up and dock-height loading access. We own 53 buildings totaling approximately 3.5 million square feet of such properties.

Office Properties: We own interests in 295 office buildings totaling approximately 34.4 million square feet (28% of total square feet). These properties include primarily suburban office properties.

Other Properties: We own interests in 20 healthcare and retail buildings totaling more than 2.1 million square feet (2% of total square feet).

Land: We own or control approximately 7,700 acres of land located primarily in existing business parks. The land is ready for immediate use and is unencumbered. More than 113 million square feet of additional space can be developed on these sites and substantially all of the land is zoned for either office, industrial, healthcare or retail development.

Property Descriptions

The following schedule represents the geographic highlights of properties in our primary markets.

Duke Realty Corporation

Geographic Highlights

In Service Properties as of December 31, 2007

	Square Feet (1)						
	Industrial	**Suburban Office**	**Other**	**Overall**	**Percent of Overall**	**Annual Net Effective Rent (2)**	**Percent of Annual Net Effective Rent**
Primary Market							
Cincinnati	10,437,397	4,776,368	826,597	16,040,362	14.44%	$ 84,968,472	13.57%
Indianapolis	18,016,702	2,977,170	26,352	21,020,224	18.91%	80,951,114	12.94%
Atlanta	8,142,383	3,942,600	389,659	12,474,642	11.22%	74,272,067	11.87%
Chicago	5,565,486	2,829,398	74,901	8,469,785	7.62%	60,403,525	9.65%
St. Louis	3,937,813	3,311,455		7,249,268	6.52%	56,036,367	8.95%
Columbus	3,561,480	3,321,971		6,883,451	6.19%	47,889,436	7.65%
Raleigh	2,001,449	2,697,713		4,699,162	4.23%	44,088,142	7.05%
Central Florida	3,360,479	1,464,140		4,824,619	4.34%	32,879,249	5.25%
Nashville	3,118,718	1,319,788		4,438,506	3.99%	29,246,865	4.67%
Minneapolis	3,575,125	1,067,811		4,642,936	4.18%	28,454,791	4.55%
Dallas	9,182,858	152,000		9,334,858	8.40%	22,636,638	3.62%
Savannah	4,393,700			4,393,700	3.95%	14,835,584	2.37%
Cleveland		1,324,367		1,324,367	1.19%	14,750,841	2.36%
Washington DC	654,918	2,265,750		2,920,668	2.63%	14,265,333	2.28%
South Florida		773,923		773,923	0.70%	8,690,496	1.39%
Norfolk	466,000			466,000	0.42%	2,290,177	0.37%
Seattle	120,000			120,000	0.11%	2,160,000	0.35%
Houston	172,000	159,175		331,175	0.30%	1,584,000	0.25%
Other (3)	436,139		294,968	731,107	0.66%	5,381,105	0.86%
Total	77,142,647	32,383,629	1,612,477	111,138,753	100.00%	$ 625,784,202	100.00%
	69.41%	29.14%	1.45%	100.00%			

	Occupancy %			
	Industrial	**Suburban Office**	**Other**	**Overall**
Primary Market				
Cincinnati	90.96%	90.41%	94.70%	90.98%
Indianapolis	95.39%	95.81%	81.03%	95.43%
Atlanta	94.25%	93.38%	81.41%	93.57%
Chicago	97.69%	94.61%	96.79%	96.65%
St. Louis	85.88%	91.24%		88.33%
Columbus	100.00%	89.01%		94.69%
Raleigh	96.08%	95.24%		95.60%
Central Florida	90.77%	94.05%		91.76%
Nashville	77.12%	81.05%		78.29%
Minneapolis	94.08%	73.40%		89.32%
Dallas	94.37%	100.00%		94.46%
Savannah	100.00%			100.00%
Cleveland		82.39%		82.39%

Washington DC	97.69%	90.41%		92.04%
South Florida		77.64%		77.64%
Norfolk	100.00%			100.00%
Seattle	100.00%			100.00%
Houston	100.00%			51.94%
Other (3)	100.00%		85.65%	94.21%
Total	93.81%	90.17%	89.75%	92.69%

(1) Includes all wholly owned and joint venture projects shown at 100% as of report date .

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(2) Represents the average annual rental property revenue due from tenants in occupancy as of the date of this report, excluding additional rent due as operating expense reimbursements, landlord allowances for operating expenses and percentage rents. Joint Venture properties are shown at the Company s ownership percentage.

(3) Represents properties not located in the Company s primary markets. These properties are located in similar midwest or southeast markets.

Note: Excludes buildings that are in the held for sale portfolio.

Item 3. Legal Proceedings

We are not subject to any material pending legal proceedings, other than ordinary routine litigation arising in the ordinary course of business. Our management expects that these ordinary routine legal proceedings will be covered by insurance and does not expect these legal proceedings to have a material adverse effect on our financial condition, results of operations, or liquidity.

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

No matters were submitted to a vote of security holders during the quarter ended December 31, 2007.

PART II

Item 5. Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common shares are listed for trading on the New York Stock Exchange under the symbol DRE. The following table sets forth the high and low sales prices of the common stock for the periods indicated and the dividend paid per share during each such period. Comparable cash dividends are expected in the future. As of February 20, 2008, there were 10,535 record holders of common shares.

	2007			2006		
Quarter Ended	**High**	**Low**	**Dividend**	**High**	**Low**	**Dividend**
December 31	$ 35.40	$ 24.25	$ .480	$ 44.05	$ 36.98	$ .475
September 30	37.05	29.74	.480	38.50	34.60	.475
June 30	44.90	35.22	.475	37.90	32.88	.470
March 31	48.42	40.02	.475	38.55	33.32	.470

On January 30, 2008, we declared a quarterly cash dividend of $.480 per share, payable on February 29, 2008, to common shareholders of record on February 14, 2008.

A summary of the tax characterization of the dividends paid per common share for the years ended December 31, 2007, 2006 and 2005 follows:

	2007	**2006**	**2005**
Common shareholders dividend	**$ 1.91**	$ 1.89	$ 1.87
Common shareholders dividend special			1.05
Total dividends paid per share	**$ 1.91**	$ 1.89	$ 2.92

Ordinary income	**63.1%**	64.2%	44.2%
Return of capital	**0%**	5.3%	0%
Capital gains	**36.9%**	30.5%	55.8%
	100.0%	100.0%	100.0%

Securities Authorized for Issuance Under Equity Compensation Plans

The information required by this Item concerning securities authorized for issuance under equity compensation plans is set forth in or incorporated herein by reference to Part III, Item 12 of this Annual Report.

Sales of Unregistered Securities

We did not sell any of our securities during the three months ended December 31, 2007 that were not registered under the Securities Act.

Issuer Purchases of Equity Securities

From time to time, we repurchase our common shares under a $750.0 million share repurchase program that initially was approved by the Board of Directors and publicly announced in October 2001 (the Repurchase Program). In July 2005, the Board of Directors authorized management to purchase up to $750.0 million of common shares pursuant to this plan. Under the Repurchase Program, we also execute share repurchases on an ongoing basis associated with certain employee elections under our compensation and benefit programs.

The following table shows the share repurchase activity for each of the three months in the quarter ended December 31, 2007:

Month	Total Number of Shares Purchased (1)		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs (2)
October			N/A		
November	6,443	$	26.55	6,443	
December	21,191	$	26.64	21,191	
Total	27,634	$	26.62	27,634	

(1) Represents 27,634 common shares swapped to pay the exercise price of stock options.

(2) The number of common shares that may yet be repurchased in the open market to fund shares purchased under our Employee Stock Purchase Plan, as amended, was 81,840 on December 31, 2007. The approximate dollar value of common shares that may yet be purchased under the Repurchase Program was $361.0 million as of December 31, 2007.

Item 6. Selected Financial Data

The following sets forth selected financial and operating information on a historical basis for each of the years in the five-year period ended December 31, 2007. The following information should be read in conjunction with Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 8, Financial Statements and Supplementary Data included in this Form 10-K (in thousands, except per share amounts):

		2007		2006		2005		2004		2003
Results of Operations:										
Revenues:										
Rental Operations from Continuing Operations	**$**	**823,869**	$	781,552	$	631,611	$	564,094	$	513,404
		99,358		90,125		81,941		70,803		59,456

Service Operations from Continuing Operations										
Total Revenues from Continuing Operations	**$**	**923,227**	$	871,677	$	713,552	$	634,897	$	572,860
Income from Continuing Operations	**$**	**159,196**	$	151,363	$	132,815	$	126,941	$	133,022
Net Income Available for common shareholders	**$**	**217,692**	$	145,095	$	309,183	$	151,279	$	161,911
Per Share Data:										
Basic income per common share:										
Continuing operations	**$**	**0.70**	$	0.69	$	0.61	$	0.63	$	0.70
Discontinued operations		**0.86**		0.39		1.58		0.44		0.49
Diluted income per common share:										
Continuing operations		**0.69**		0.68		0.60		0.63		0.70
Discontinued operations		**0.86**		0.39		1.57		0.43		0.49
Dividends paid per common share		**1.91**		1.89		1.87		1.85		1.83
Dividends paid per common share special						1.05				
Weighted average common shares outstanding		**139,255**		134,883		141,508		141,379		135,595
Weighted average common shares and potential dilutive common equivalents		**149,614**		149,393		155,877		157,062		151,141

	2007	2006	2005	2004	2003
Balance Sheet Data (at December 31):					
Total Assets	**$ 7,661,981**	$ 7,238,595	$ 5,647,560	$ 5,896,643	$ 5,561,249
Total Debt (1)	**4,316,460**	4,109,154	2,600,651	2,518,704	2,335,536
Total Preferred Equity	**744,000**	876,250	657,250	657,250	540,508
Total Shareholders Equity	**2,750,033**	2,503,583	2,452,798	2,825,869	2,666,749
Total Common Shares Outstanding	**146,175**	133,921	134,697	142,894	136,594
Other Data:					
Funds From Operations (2)	**$ 384,032**	$ 338,008	$ 341,189	$ 352,469	$ 335,989

(1) Includes $147,309 of secured debt classified as liabilities of properties held for sale at December 31, 2006.

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

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

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

See reconciliation of FFO to GAAP net income under Year in Review section of Management s Discussion and Analysis of Financial Condition and Results of Operations.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Business Overview

We are a self-administered and self-managed REIT that began operations through a related entity in 1972. As of December 31, 2007, we:

- Owned or jointly controlled 726 industrial, office, healthcare and retail properties (including properties under development), consisting of more than 121.1 million square feet; and

- Owned or jointly controlled approximately 7,700 acres of unencumbered land with an estimated future development potential of more than 113 million square feet of industrial, office, healthcare and retail properties.

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

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

Management Philosophy and Priorities

Our key business and financial strategies for the future include the following:

- One of our primary business objectives is to increase Funds From Operations (FFO) by (i) maintaining and increasing property occupancy and rental rates through the management of our portfolio of existing properties; (ii) developing and acquiring new properties for rental operations in our existing markets; (iii) expanding geographically by acquiring and developing properties in new markets; (iv) using our construction expertise to act as a general contractor or construction manager in our existing markets and other domestic markets on a fee basis; (v) developing and repositioning properties in our existing markets and other markets which we will sell through our Service Operations property sale program; and (vi) providing a full line of real estate services to our tenants and to third parties.

- Our financing strategy is to actively manage the components of our capital structure including common and preferred equity and debt to maintain a conservatively leveraged balance sheet and investment grade ratings from our credit rating agencies. Additionally, we employ a capital recycling program where we utilize sales of operating real estate assets that no longer fit our strategies to generate proceeds that can be recycled into new properties that better fit our current and longer term strategies. This strategy provides us with the financial flexibility to fund both development and acquisition opportunities. We seek to maintain a well-balanced, conservative and flexible capital structure by: (i) extending and sequencing the maturity dates of debt; (ii) borrowing primarily at fixed rates by targeting a variable rate component of total debt less than 20%; (iii) pursuing current and future long-term debt financings and refinancing generally on an unsecured basis; (iv) maintaining conservative debt service and fixed charge coverage ratios; (v) generating proceeds from the sale of non-strategic properties and (vi) issuing perpetual preferred stock for 5-10% of our total capital structure.

Year in Review

During 2007, we continued the execution of our strategy to improve our portfolio of held for investment buildings through our capital recycling program, increasing our development pipeline to over $1.9 billion, and continuing geographic expansion that we anticipate will provide future earnings growth. As a result of these accomplishments, we achieved steady operating results while maintaining a strong balance sheet.

Net income available for common shareholders for the year ended December 31, 2007, was $217.7 million, or $1.55 per share (diluted), compared to net income of $145.1 million, or $1.07 per share (diluted) for the year ended 2006. FFO available to common shareholders totaled $384.0 million for the year ended December 31, 2007, compared to $338.0 million for the same period in 2006. Industry analysts and investors use FFO as a supplemental operating performance measure of an equity real estate investment trust (REIT). FFO is calculated in accordance with the definition that was adopted by the Board of Governors of the National Association of Real Estate Investment Trusts (NAREIT). FFO, as defined by NAREIT, represents net income (loss) determined in accordance with United States generally accepted accounting principles (GAAP), excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated real estate assets, plus certain non-cash items such as real estate asset depreciation and amortization, and after similar adjustments for unconsolidated partnerships and joint ventures.

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

The following table summarizes the calculation of FFO for the years ended December 31, 2007, 2006 and 2005, respectively (in thousands):

		2007		2006		2005
Net income available for common shareholders	**$**	**217,692**	$	145,095	$	309,183
Adjustments:						
Depreciation and amortization		**277,691**		254,268		254,170
Company share of joint venture depreciation and amortization		**26,948**		18,394		19,510
Earnings from depreciable property sales wholly owned		**(121,072)**		(42,089)		(227,513)
Earnings from depreciable property sales share of joint venture		**(6,244)**		(18,802)		(11,096)
Minority interest share of adjustments		**(10,983)**		(18,858)		(3,065)
Funds From Operations	**$**	**384,032**	$	338,008	$	341,189

We continued strategic initiatives to expand geographically, recycle capital from the disposition of operating properties, and create value by leveraging our development, construction and management capabilities as follows:

- As part of our continuing strategy to expand into new markets, we entered the Southern California, Seattle and Eastern Virginia markets in 2007. This follows our geographic expansion initiatives in 2006 into the Washington, D.C., Baltimore, Phoenix and Houston markets.

- Throughout 2007, we completed land acquisitions totaling $321.3 million while generating proceeds of $161.5 million from the disposition of other land parcels. Of our total undeveloped land inventory, $108.1 million was placed under development during 2007 as construction activity commenced.

- In February 2007, we continued our expansion into the health care real estate market by completing the acquisition of Bremner Healthcare Real Estate (Bremner), a national health care development and management firm. The initial consideration paid to the sellers totaled $47.1 million, and the sellers may be eligible for further contingent payments over the next three years.

- We disposed of 32 non-strategic wholly owned held for rental properties for $336.7 million of gross proceeds. Additionally, unconsolidated subsidiaries disposed of 10 properties of which our share of the gross proceeds totaled $30.1 million. These transactions were a continuation of our long-term strategy of recycling assets into higher yielding new developments.

- We disposed of 15 properties, which were developed with the intent to sell, for $256.6 million of gross proceeds and recognized pre-tax gains on sale of $34.7 million.

- We will continue to develop long-term assets to be held in our portfolio and develop assets to be sold upon, or soon after, completion. With over $1.9 billion (which includes $182.6 million of third-party construction backlog) in our development pipeline at December 31, 2007, we are encouraged about the long-term growth opportunities in our business. Newly developed properties, with a basis of $593.1 million and occupancy of 59.7% at December 31, 2007, were placed in service during the year.

- We achieved record leasing activity in 2007 with approximately 22.5 million square feet of new leases and approximately 12.0 million square feet of lease renewals.

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