APPENDIX –
NEW LEASE ACCOUNTING STANDARD

New Lease Accounting Standard

- A significant portion of currently capitalizable internal leasing costs *will be expensed* beginning January 1, 2019 when new leasing standard (ASC 842) is adopted
- Negative <u>accounting</u> impact for REIT's with in-house leasing platform – majority of internal costs will now be expensed, whereas costs paid to outside service providers for the same services will generally be capitalized
- Impact to Duke Realty EPS and NAREIT FFO approximately $0.04/share annually
- Duke Realty to revise Core FFO Definition, results in <u>*no Core FFO or AFFO impact*</u>
- Duke Realty's internal leasing model results in economic cost savings and significant qualitative benefits compared to an outsourced model

Internal Leasing Costs – Impact from New Accounting Standard

The impact if ASC 842 would have been applied historically follows:

Dollars in 000's, except per share amounts

	12 Months ended Dec 31, 2017	9 Months ended Sept 30, 2018
Internal Leasing Costs Currently Capitalized(1)	$19,119	$14,915
Less: Lease Incentive Bonus Payments(2)	(5,269)	(5,751)
Additional Expense if ASC 842 had applied	$13,850	$9,164
Per Share Impact to NAREIT FFO	$0.04	$0.03

(1) As disclosed, respectively, on page 37 of our 2017 Form 10-K and page 38 of our September 30, 2018 Form 10-Q.
*(2) Compensation in the form of "Lease Incentive Bonus" that is specific to individual leases **will still be capitalizable** under ASC 842.*

- Potential to penalize REITs that have scale and use less costly internal brokers versus more expensive external brokers
- Unclear how REITs will allocate costs between G&A and operating expense line items

Impact to Statement of Operations

Proposed presentation of Core FFO and AFFO under ASC 842 is as follows:

Duke Realty Corporation and Subsidiaries
Condensed Consolidated Statement of Operations
(Unaudited and in thousands, except per share amounts)

	Nine Months Ended September 30, 2018		
	As Presented	**Impact of New Standard**	**Adjusted**
Rental, services and general contractor revenues:	$ 677,013		$ 677,013
Expenses:			
Rental expenses, real estate taxes and depreciation	(380,942)		(380,942)
General contractor and other services expenses	(89,392)		(89,392)
Other operating activities:			
Equity in earnings of unconsolidated joint ventures	15,521		15,521
Gain on sale of properties and land	201,962		201,962
Other operating expenses	(2,591)		(2,591)
Non-incremental costs related to successful leases	—	(9,164)	(9,164)
General and administrative expenses	(43,441)		(43,441)
	378,130	(9,164)	368,966
Other income (expenses):			
Interest and other income, net	13,079		13,079
Interest expense	(62,137)		(62,137)
Income tax expense	(9,495)		(9,495)
Income from continuing operations	319,577	(9,164)	310,413
Income from discontinued operations	3,265		3,265
Net income	322,842	(9,164)	313,678
Net income attributable to noncontrolling interests	(3,009)	82	(2,927)
Net income attributable to common shareholders	$ 319,833	$ (9,082)	$ 310,751
Per diluted Share	$ 0.89	$ (0.03)	$ 0.86

➢ Transparent, single line item, presentation of incremental expense impact

Expanded definition of Core FFO to adjust for the impact of ASC 842:

Duke Realty Corporation and Subsidiaries
Condensed Summary of EPS, FFO and AFFO
Nine Months Ended September 30, 2018
(Unaudited and in thousands, except per share amounts)

	As Reported	Impact of New Standard	Adjusted
Net income attributable to common shareholders	**$ 319,833**	**$ (9,082)**	**$ 310,751**
Adjustments:			
Depreciation and amortization	238,863		238,863
Gains on depreciable property sales	(196,589)		(196,589)
Noncontrolling interest share of adjustments	(395)		(395)
NAREIT FFO attributable to common shareholders - basic	**361,712**	**(9,082)**	**352,630**
Noncontrolling interest in income of unitholders	3,002	(82)	2,920
Noncontrolling interest share of adjustments	395		395
NAREIT FFO attributable to common shareholders - diluted	**$ 365,109**	**$ (9,164)**	**$ 355,945**
Gains on land sales	(7,221)		(7,221)
Gains on involuntary conversion	(1,397)		(1,397)
Loss on debt extinguishment	240		240
Non-incremental costs related to successful leases	—	9,164	9,164
Core FFO attributable to common shareholders - diluted	**$ 356,731**	**$ 0**	**$ 356,731**
Second generation leasing costs (including tenant broker commissions)	(16,367)	—	(16,367)
Second generation tenant improvements and other capital expenditures	(15,359)	—	(15,359)
Other non-cash adjustments	3,125	—	3,125
AFFO	**$ 328,130**	**$ 0**	**$ 328,130**

No Core FFO or AFFO Impact

- Promotes consistency with prior periods and peers that outsource their leasing function
- Normalizes a modification to a long-standing accounting rule as economics remain unchanged
- Internal costs capitalizable under current accounting rules will continue to be included in post-implementation disclosures of leasing costs

Internalized Leasing vs. Outsourced – Cost Comparison

Dollars in 000's	12 Months ended Dec 31, 2017	9 Months ended Sept 30, 2018
Dollar Value of Leases Executed	$865,000	$922,000
x commission % (approx listing broker standard)	2%	2%
Outsourced Listing Broker Function(1)	17,300	18,440
Outsourced Legal Function(2)	4,405	2,740
Estimated Total Cost of Outsourcing	$21,705	$21,180
Amounts Currently Capitalized for Internal Leasing Function(3)	$19,119	$14,915
Cost Savings under Duke model	$2,586	$6,265

(1) Estimated commissions paid if actual leases executed in these periods would have been outsourced to external listing brokers rather than maintaining an internal leasing team.
(2) Based on an estimate of $25K per new lease and $10K per renewal lease. During the nine months ended 9/30/18, DRE executed 79 renewal leases and 78 new leases. During 2017, executed 93 renewal leases and 139 new leases.
(3) As disclosed, respectively, on page 37 of our 2017 Form 10-K and page 38 of our September 30, 2018 Form 10-Q. Excludes amounts applicable to joint ventures.

INTERNAL LEASING
and support costs we currently capitalize
ARE 10-15% LESS THAN
what would be paid if functions outsourced.

Estimated
OUTSOURCE COSTS
that would be
CAPITALIZABLE
under ASC 842.

Other Benefits of Internal Leasing Platform

Contributes to Lower Capex

- ➢ National Platform
  - Cross-market coordination enhances leasing solutions for customers
- ➢ Local expertise in 20 markets
  - Strong customer, broker and municipality relationships . . . "best in class" reputations
  - No conflicts of interest from external listing brokers
- ➢ Vertically integrated; Cross-department Synergies
  - Collaborative internal leasing, in-house construction, in-house counsel and in-house property management team. Full integration provides superior customer service, enhances tenant retention and execution of backfilling vacancies
  - In-house leasing provides new business synergies for build-to-suit development

Better Occupancy

DRE Stabilized, in-service Occupancy averages ~130bps higher[(1)] than peers since 2014

➢ Total Capex as % of NOI lowest amongst industrial REIT's[(2)]

Lower Capex

Peer relative LC's & Overall Capex ~ 27% higher than DRE

Note: Data estimates from YE data points starting 2014 and including 6/30/18.
(1) 97.9% DRE vs 96.6% for Peers (PLD, FR, EGP & LPT-indus).
(2) Tot Capex (LC's TI's, Def Maint) % of NOI DRE 10.7% versus 14.7% for Peers (PLD, FR, EGP, TRNO, REXR). Peers excluded if lacking disclosure.