BRANDYWINE REALTY TRUST
Form 10-Q
July 25, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2016

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

001-9106 (Brandywine Realty Trust)

000-24407 (Brandywine Operating Partnership, L.P.)

Brandywine Realty Trust

Brandywine Operating Partnership, L.P.

(Exact name of registrant as specified in its charter)

MARYLAND (Brandywine Realty Trust)	23-2413352
DELAWARE (Brandywine Operating Partnership L.P.)	23-2862640
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

555 East Lancaster Avenue	
Radnor, Pennsylvania	19087
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (610) 325-5600

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.

Brandywine Realty Trust Yes x No o
Brandywine Operating Partnership, L.P. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Brandywine Realty Trust Yes x No o
Brandywine Operating Partnership, L.P. Yes x No o

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

Brandywine Realty Trust:

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

Brandywine Operating Partnership, L.P.:

Large accelerated filer o Accelerated filer o Non-accelerated filer x 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).

Brandywine Realty Trust Yes o No x
Brandywine Operating Partnership, L.P. Yes o No x

A total of 175,105,974 Common Shares of Beneficial Interest, par value $0.01 per share of Brandywine Realty Trust, were outstanding as of July 22, 2016.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended June 30, 2016 of Brandywine Realty Trust (the “Parent Company”) and Brandywine Operating Partnership L.P. (the “Operating Partnership”). The Parent Company is a Maryland real estate investment trust, or REIT, that owns its assets and conducts its operations through the Operating Partnership, a Delaware limited partnership, and subsidiaries of the Operating Partnership. The Parent Company, the Operating Partnership and their consolidated subsidiaries are collectively referred to in this report as the “Company”. In addition, as used in this report, terms such as “we”, “us”, and “our” may refer to the Company, the Parent Company, or the Operating Partnership.

The Parent Company is the sole general partner of the Operating Partnership and, as of June 30, 2016, owned a 99.1% interest in the Operating Partnership. The remaining 0.9% interest consists of common units of limited partnership interest issued by the Operating Partnership to third parties in exchange for contributions of properties to the Operating Partnership. As the sole general partner of the Operating Partnership, the Parent Company has full and complete authority over the Operating Partnership’s day-to-day operations and management.

Management operates the Parent Company and the Operating Partnership as one enterprise. The management of the Parent Company consists of the same members as the management of the Operating Partnership.

As general partner with control of the Operating Partnership, the Parent Company consolidates the Operating Partnership for financial reporting purposes, and the Parent Company does not have significant assets other than its investment in the Operating Partnership. Therefore, the assets and liabilities of the Parent Company and the Operating Partnership are the same on their respective financial statements. The separate discussions of the Parent Company and the Operating Partnership in this report should be read in conjunction with each other to understand the results of the Company's operations on a consolidated basis and how management operates the Company.

The Company believes that combining the quarterly reports on Form 10-Q of the Parent Company and the Operating Partnership into a single report will result in the following benefits:

- facilitate a better understanding by the investors of the Parent Company and the Operating Partnership by enabling them to view the business as a whole in the same manner as management views and operates the business;
- remove duplicative disclosures and provide a more straightforward presentation in light of the fact that a substantial portion of the disclosure applies to both the Parent Company and the Operating Partnership; and
- create time and cost efficiencies through the preparation of one combined report instead of two separate reports.

There are few differences between the Parent Company and the Operating Partnership, which are reflected in the footnote disclosures in this report. The Company believes it is important to understand the differences between the Parent Company and the Operating Partnership in the context of how these entities operate as an interrelated consolidated company. The Parent Company is a REIT, whose only material asset is its ownership of partnership interests of the Operating Partnership. As a result, the Parent Company does not conduct business itself, other than acting as the sole general partner of the Operating Partnership, issuing equity from time to time and guaranteeing the debt obligations of the Operating Partnership. The Operating Partnership holds substantially all the assets of the Company and directly or indirectly holds the ownership interests in the Company’s Real Estate Ventures. The Operating Partnership conducts the operations of the Company’s business and is structured as a partnership with no publicly traded equity. Except for net proceeds from equity issuances by the Parent Company, which are contributed to the Operating Partnership in exchange for partnership units, the Operating Partnership generates the capital required by the Company’s business through the Operating Partnership’s operations, by the Operating Partnership’s incurrence of indebtedness (directly and through subsidiaries) and through the issuance of partnership units of the Operating Partnership or equity interests in subsidiaries of the Operating Partnership.

The equity and non-controlling interests in the Parent Company and the Operating Partnership's equity are the main areas of difference between the consolidated financial statements of the Parent Company and the Operating Partnership. The common units of limited partnership interest in the Operating Partnership are accounted for as partners' equity in the Operating Partnership's financial statements while the common units of limited partnership interests held by parties other than the Parent Company are presented as non-controlling interests in the Parent Company's financial statements. The differences between the Parent Company and the Operating Partnership's equity relate to the differences in the equity issued at the Parent Company and Operating Partnership levels.

To help investors understand the significant differences between the Parent Company and the Operating Partnership, this report presents the following as separate notes or sections for each of the Parent Company and the Operating Partnership:

- Consolidated Financial Statements; and
- Notes to the Parent Company's and Operating Partnership's Equity.

This report also includes separate Item 4. (Controls and Procedures) disclosures and separate Exhibit 31 and 32 certifications for each of the Parent Company and the Operating Partnership in order to establish that the Chief Executive Officer and the Chief Financial Officer of each entity have made the requisite certifications and that the Parent Company and Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. § 1350.

In order to highlight the differences between the Parent Company and the Operating Partnership, the separate sections in this report for the Parent Company and the Operating Partnership specifically refer to the Parent Company and the Operating Partnership. In the sections that combine disclosures of the Parent Company and the Operating Partnership, this report refers to such disclosures as those of the Company. Although the Operating Partnership is generally the entity that directly or indirectly enters into contracts and real estate ventures and holds assets and incurs debt, reference to the Company is appropriate because the business is one enterprise and the Parent Company operates the business through the Operating Partnership.

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Filing Format

This combined Form 10-Q is being filed separately by Brandywine Realty Trust and Brandywine Operating Partnership, L.P.

PART I - FINANCIAL INFORMATION

Item 1. — Financial Statements

BRANDYWINE REALTY TRUST

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share information)

ASSETS	June 30, 2016 (unaudited)	December 31, 2015
Real estate investments:		
Operating properties	$3,721,405	$3,693,000
Accumulated depreciation	(877,236)	(867,035)
Operating real estate investments, net	2,844,169	2,825,965
Construction-in-progress	254,188	268,983
Land held for development	131,015	130,479
Total real estate investments, net	3,229,372	3,225,427
Assets held for sale, net	12,308	584,365
Cash and cash equivalents	265,597	56,694
Accounts receivable, net of allowance of $2,221 and $1,736 in 2016 and 2015, respectively	14,804	17,126
Accrued rent receivable, net of allowance of $13,144 and $14,442 in 2016 and 2015, respectively	138,981	145,092
Investment in Real Estate Ventures, equity method	272,148	241,004
Deferred costs, net of accumulated amortization of $57,673 and $67,899, respectively	94,373	101,419
Intangible assets, net	90,014	111,623
Other assets	63,591	71,761
Total assets	$4,181,188	$4,554,511
LIABILITIES AND BENEFICIARIES' EQUITY		
Mortgage notes payable, net	$344,308	$545,753
Unsecured term loans, net	247,933	247,800
Unsecured senior notes, net	1,442,380	1,591,164
Accounts payable and accrued expenses	91,425	99,856
Distributions payable	29,880	28,249
Deferred income, gains and rent	31,171	30,413
Acquired lease intangibles, net	21,413	25,655
Liabilities related to assets held for sale	11	2,151
Other liabilities	42,841	31,379
Total liabilities	$2,251,362	$2,602,420
Commitments and contingencies (See Note 13)		
Brandywine Realty Trust's Equity:		
Preferred Shares (shares authorized-20,000,000)		
6.90% Series E Preferred Shares, $0.01 par value; issued and outstanding- 4,000,000 in 2016 and 2015	40	40

Common Shares of Brandywine Realty Trust's beneficial interest, $0.01 par value; shares authorized 400,000,000; 175,101,033 and 174,688,568 issued and outstanding in 2016 and 2015, respectively	1,751	1,747
Additional paid-in-capital	3,256,735	3,252,622
Deferred compensation payable in common shares	13,744	11,918
Common shares in grantor trust, 901,269 in 2016, 745,686 in 2015	(13,744)	(11,918)
Cumulative earnings	543,743	499,086
Accumulated other comprehensive loss	(17,769)	(5,192)
Cumulative distributions	(1,872,100)	(1,814,378)
Total Brandywine Realty Trust's equity	1,912,400	1,933,925
Non-controlling interests	17,426	18,166
Total beneficiaries' equity	$ 1,929,826	$ 1,952,091
Total liabilities and beneficiaries' equity	$ 4,181,188	$ 4,554,511

The accompanying notes are an integral part of these consolidated financial statements.

BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited, in thousands, except share and per share information)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2016	2015	2016	2015
Revenue				
Rents	$103,624	$119,127	$213,787	$239,537
Tenant reimbursements	15,937	19,799	35,991	42,453
Termination fees	554	828	848	1,464
Third party management fees, labor reimbursement and leasing	6,208	4,659	11,443	8,531
Other	858	1,235	1,614	4,069
Total revenue	127,181	145,648	263,683	296,054
Operating expenses				
Property operating expenses	36,079	42,704	76,958	89,281
Real estate taxes	11,481	11,968	23,367	24,513
Third party management expenses	2,661	1,677	4,671	3,253
Depreciation and amortization	46,907	50,930	95,780	102,041
General and administrative expenses	6,076	6,791	15,196	15,427
Provision for impairment	5,679	782	13,069	2,508
Total operating expenses	108,883	114,852	229,041	237,023
Operating income	18,298	30,796	34,642	59,031
Other income (expense)				
Interest income	359	313	679	1,063
Interest expense	(19,829)	(27,895)	(43,520)	(56,071)
Interest expense - amortization of deferred financing costs	(644)	(1,288)	(1,418)	(2,367)
Interest expense - financing obligation	(242)	(324)	(523)	(610)
Equity in loss of Real Estate Ventures	(1,666)	(873)	(2,069)	(742)
Net gain (loss) on disposition of real estate	(727)	1,571	114,729	10,590
Net gain from remeasurement of investments in Real Estate Ventures	-	758	-	758
Net gain on Real Estate Venture transactions	3,128	-	9,057	-
Loss on early extinguishment of debt	-	-	(66,590)	-
Net income (loss)	(1,323)	3,058	44,987	11,652
Net (income) loss attributable to non-controlling interests	22	(2)	(367)	(60)
Net income (loss) attributable to Brandywine Realty Trust	(1,301)	3,056	44,620	11,592
Distribution to preferred shareholders	(1,725)	(1,725)	(3,450)	(3,450)
Nonforfeitable dividends allocated to unvested restricted shareholders	(79)	(76)	(184)	(177)
	$(3,105)	$1,255	$40,986	$7,965

Net income (loss) attributable to Common Shareholders of Brandywine Realty Trust				
Basic income (loss) per Common Share:				
Continuing operations	$(0.02)	$0.01	$0.23	$0.04
Diluted income (loss) per Common Share:				
Continuing operations	$(0.02)	$0.01	$0.23	$0.04
Basic weighted average shares outstanding	175,013,291	179,860,284	174,901,118	179,712,428
Diluted weighted average shares outstanding	175,013,291	180,538,887	175,823,970	180,599,265
Distributions declared per Common Share	$0.16	$0.15	$0.31	$0.30

The accompanying notes are an integral part of these consolidated financial statements.

BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, in thousands)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2016	2015	2016	2015
Net income (loss)	$(1,323)	$3,058	$44,987	$11,652
Comprehensive gain (loss):				
Unrealized gain (loss) on derivative financial instruments	(3,813)	1,494	(13,218)	(1,169)
Reclassification of realized losses on derivative financial instruments to operations, net (1)	286	58	532	116
Total comprehensive gain (loss)	(3,527)	1,552	(12,686)	(1,053)
Comprehensive income (loss)	(4,850)	4,610	32,301	10,599
Comprehensive (gain) loss attributable to non-controlling interest	51	(15)	(258)	(51)
Comprehensive income (loss) attributable to Brandywine Realty Trust	$(4,799)	$4,595	$32,043	$10,548

(1) Amounts reclassified from comprehensive income to interest expense within the Consolidated Statements of Operations.

The accompanying notes are an integral part of these consolidated financial statements.

BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENTS OF BENEFICIARIES' EQUITY

For the six-month period ended June 30, 2016

(unaudited, in thousands, except number of shares)

	Number of Preferred Shares	Par Value of Preferred Shares	Number of Common Shares	Number of Rabbi Trust/Deferred Compensation Shares	Common Shares of Brandywine Realty Trust's beneficial interest	Additional Paid-in Capital	Deferred Compensation Payable in Common Shares	Common Shares in Grantor Trust	Cumulative Earnings	Accumulated Other Comprehensive Loss	Cumulative Distributions	Non-Co Interest
	4,000,000	$40	174,688,568	745,686	$1,747	$3,252,622	$11,918	$(11,918)	$499,086	$(5,192)	$(1,814,378)	$18,16
									44,620			367
										(12,577)		(109
												54
s			55,303		1	874						(875
			365,414		3	3,575			37			
			(8,252)	155,583		(46)	1,826	(1,826)				
g						(290)						290
											(3,450)	

										(54,272)	(467
4,000,000	$40	175,101,033	901,269	$1,751	$3,256,735	$13,744	$(13,744)	$543,743	$(17,769)	$(1,872,100)	$17,42

The accompanying notes are an integral part of these consolidated financial statements.

BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENT OF BENEFICIARIES' EQUITY

For the six-month period ended June 30, 2015

(unaudited, in thousands, except number of shares)

	Number of Preferred Shares	Par Value of Preferred Shares	Number of Common Shares	Number of Rabbi Trust/Deferred Compensation Shares	Common Shares of Brandywine Realty Trust's beneficial interest	Additional Paid-in Capital	Deferred Compensation Payable in Common Shares	Common Shares in Grantor Trust	Cumulative Earnings	Accumulated Other Comprehensive Loss	Cumulative Distributions	Non-Co Interests
	4,000,000	$40	179,293,160	384,536	$1,793	$3,314,693	$6,219	$(6,219)	$529,487	$(4,607)	$(1,700,579)	$18,499
									11,592			60
										(1,044)		(9
												1,025
			8,447			125						
e						(48)						
			509,675	280,011	6	2,949						
			86,839	83,498			5,777	(5,777)				
g						32						(32
e											(3,450)	
											(54,265)	(461

)

4,000,000	$40	179,898,121	748,045	$1,799	$3,317,751	$11,996	$(11,996)	$541,079	$(5,651)	$(1,758,294)	$19,082

The accompanying notes are an integral part of these consolidated financial statements.

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BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

	Six-month periods ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	$44,987	$11,652
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	95,780	102,041
Amortization of deferred financing costs	1,418	2,367
Amortization of debt discount/(premium), net	745	(318)
Amortization of stock compensation costs	2,947	3,568
Shares used for employee taxes upon vesting of share awards	(879)	(2,056)
Straight-line rent income	(13,699)	(11,483)
Amortization of acquired above (below) market leases, net	(3,585)	(2,633)
Straight-line ground rent expense	44	44
Provision for doubtful accounts	427	704
Net gain on real estate venture transactions	(9,057)	-
Net gain on sale of interests in real estate	(114,729)	(10,590)
Net gain from remeasurement of investment in real estate ventures	-	(758)
Loss on early extinguishment of debt - deferred financing costs	13,157	-
Provision for impairment	13,069	2,508
Real Estate Venture loss in excess of distributions	2,655	1,197
Deferred financing obligation	(528)	(612)
Changes in assets and liabilities:		
Accounts receivable	3,159	(390)
Other assets	(898)	(1,313)
Accounts payable and accrued expenses	(5,129)	(2,261)
Deferred income, gains and rent	(1,408)	(3,991)
Other liabilities	592	941
Net cash provided by operating activities	29,068	88,617
Cash flows from investing activities:		
Acquisition of properties	-	(120,379)
Acquisition of property - 1031 exchange funds applied	-	(62,812)
Proceeds from the sale of properties	748,395	80,268
Sale of property - 1031 exchange funds held in escrow	-	62,800
Distribution of sale proceeds from a real estate venture	4,812	-
Proceeds from repayment of mortgage notes receivable	-	88,000
Capital expenditures for tenant improvements	(25,939)	(39,693)
Capital expenditures for redevelopments	(8,333)	(21,844)
Capital expenditures for developments	(105,879)	(83,628)

Advances for the purchase of tenant assets, net of repayments	(3,614)	(3,003)
Investment in unconsolidated Real Estate Ventures	(15,300)	(49,139)
Deposits for real estate	(928)	(2,935)
Escrowed cash	6,993	2,113
Cash distribution from unconsolidated Real Estate Ventures in excess of cumulative equity income	10,298	5,774
Leasing costs paid	(10,220)	(10,892)
Net cash provided by (used in) investing activities	600,285	(155,370)
Cash flows from financing activities:		
Proceeds from mortgage notes payable	86,900	-
Repayments of mortgage notes payable	(301,321)	(7,046)
Proceeds from credit facility borrowings	195,000	-
Repayments of credit facility borrowings	(195,000)	-
Repayments of unsecured notes	(149,919)	-
Debt financing costs paid	(477)	(2,941)
Proceeds from the exercise of stock options	826	127
Partner contributions to consolidated real estate venture	54	1,025
Distributions paid to shareholders	(56,052)	(57,471)
Distributions to non-controlling interest	(461)	(461)
Net cash used in financing activities	(420,450)	(66,767)
Increase in cash and cash equivalents	208,903	(133,520)
Cash and cash equivalents at beginning of year	56,694	257,502
Cash and cash equivalents at end of period	$265,597	$123,982
Supplemental disclosure:		
Cash paid for interest, net of capitalized interest during the six months ended June 30, 2016 and 2015 of $7,387 and $5,623, respectively	$52,559	$63,239
Supplemental disclosure of non-cash activity:		
Change in real estate investments related to non-cash property acquisition	-	(67,261)
Change in investments in joint venture related to non-cash property acquisition	-	67,261

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Dividends and distributions declared but not paid	29,880	29,021
Change in investment in real estate ventures as a result of dispositions	2,023	-
Change in investment in real estate ventures related to non-cash disposition of property	25,165	-
Change in other liabilities from contingent consideration related to a business combination	-	1,585
Change in operating real estate from contingent consideration related to a business combination	-	(1,585)
Change in capital expenditures financed through accounts payable at period end	(4,814)	(4,142)
Change in capital expenditures financed through retention payable at period end	1,009	5,415

The accompanying notes are an integral part of these consolidated financial statements.

BRANDYWINE OPERATING PARTNERSHIP, L.P.

CONSOLIDATED BALANCE SHEETS

(in thousands, except unit and per unit information)

ASSETS	June 30, 2016 (unaudited)	December 31, 2015
Real estate investments:		
Operating properties	$3,721,405	$ 3,693,000
Accumulated depreciation	(877,236)	(867,035)
Operating real estate investments, net	2,844,169	2,825,965
Construction-in-progress	254,188	268,983
Land held for development	131,015	130,479
Total real estate investments, net	3,229,372	3,225,427
Assets held for sale, net	12,308	584,365
Cash and cash equivalents	265,597	56,694
Accounts receivable, net of allowance of $2,221 and $1,736 in 2016 and 2015, respectively	14,804	17,126
Accrued rent receivable, net of allowance of $13,144 and $14,442 in 2016 and 2015, respectively	138,981	145,092
Investment in Real Estate Ventures, equity method	272,148	241,004
Deferred costs, net of accumulated amortization of $57,673 and $67,899, respectively	94,373	101,419
Intangible assets, net	90,014	111,623
Other assets	63,591	71,761
Total assets	$4,181,188	$ 4,554,511
LIABILITIES AND PARTNERS' EQUITY		
Mortgage notes payable, net	$344,308	$ 545,753
Unsecured term loans, net	247,933	247,800
Unsecured senior notes, net	1,442,380	1,591,164
Accounts payable and accrued expenses	91,425	99,856
Distributions payable	29,880	28,249
Deferred income, gains and rent	31,171	30,413
Acquired lease intangibles, net	21,413	25,655
Liabilities related to assets held for sale	11	2,151
Other liabilities	42,841	31,379
Total liabilities	$2,251,362	$ 2,602,420
Commitments and contingencies (See Note 13)		
Redeemable limited partnership units at redemption value; 1,479,799 and 1,535,102 issued and outstanding in 2016 and 2015, respectively	24,097	22,114
Brandywine Operating Partnership, L.P.'s equity:		
6.90% Series E-Linked Preferred Mirror Units; issued and outstanding- 4,000,000 in 2016 and 2015	96,850	96,850
General Partnership Capital 175,101,033 and 174,688,568 units issued and outstanding in 2016 and 2015, respectively	1,825,070	1,836,692
Accumulated other comprehensive loss	(18,283)	(5,597)

Total Brandywine Operating Partnership, L.P.'s equity	1,903,637	1,927,945
Non-controlling interest - consolidated real estate ventures	2,092	2,032
Total partners' equity	$ 1,905,729	$ 1,929,977
Total liabilities and partners' equity	$ 4,181,188	$ 4,554,511

The accompanying notes are an integral part of these consolidated financial statements.

BRANDYWINE OPERATING PARTNERSHIP, L.P.

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited, in thousands, except unit and per unit information)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2016	2015	2016	2015
Revenue				
Rents	$103,624	$119,127	$213,787	$239,537
Tenant reimbursements	15,937	19,799	35,991	42,453
Termination fees	554	828	848	1,464
Third party management fees, labor reimbursement and leasing	6,208	4,659	11,443	8,531
Other	858	1,235	1,614	4,069
Total revenue	127,181	145,648	263,683	296,054
Operating expenses				
Property operating expenses	36,079	42,704	76,958	89,281
Real estate taxes	11,481	11,968	23,367	24,513
Third party management expenses	2,661	1,677	4,671	3,253
Depreciation and amortization	46,907	50,930	95,780	102,041
General and administrative expenses	6,076	6,791	15,196	15,427
Provision for impairment	5,679	782	13,069	2,508
Total operating expenses	108,883	114,852	229,041	237,023
Operating income	18,298	30,796	34,642	59,031
Other income (expense)				
Interest income	359	313	679	1,063
Interest expense	(19,829)	(27,895)	(43,520)	(56,071)
Interest expense - amortization of deferred financing costs	(644)	(1,288)	(1,418)	(2,367)
Interest expense - financing obligation	(242)	(324)	(523)	(610)
Equity in loss of Real Estate Ventures	(1,666)	(873)	(2,069)	(742)
Net gain (loss) on disposition of real estate	(727)	1,571	114,729	10,590
Net gain from remeasurement of investments in Real Estate Ventures	-	758	-	758
Net gain on Real Estate Venture transactions	3,128	-	9,057	-
Loss on early extinguishment of debt	-	-	(66,590)	-
Net income (loss)	(1,323)	3,058	44,987	11,652
Net (income) loss from continuing operations attributable to non-controlling interests - consolidated real estate ventures	(4)	5	(6)	5
Net income (loss) attributable to Brandywine Operating Partnership	(1,327)	3,063	44,981	11,657
Distribution to preferred unitholders	(1,725)	(1,725)	(3,450)	(3,450)
Amounts allocated to unvested restricted unitholders	(79)	(76)	(184)	(177)
	$(3,131)	$1,262	$41,347	$8,030

Net income (loss) attributable to Common Partnership Unitholders of Brandywine Operating Partnership, L.P.				
Basic income (loss) per Common Partnership Unit:				
Continuing operations	$(0.02)	$0.04	$0.23	$0.04
Diluted income (loss) per Common Partnership Unit:				
Continuing operations	$(0.02)	$0.04	$0.23	$0.04
Basic weighted average common partnership units outstanding	176,541,708	181,395,386	176,432,877	181,247,530
Diluted weighted average common partnership units outstanding	176,541,708	182,073,989	177,355,730	182,134,367
Distributions declared per Common Partnership Unit	$0.16	$0.15	$0.31	$0.30

The accompanying notes are an integral part of these consolidated financial statements.

BRANDYWINE OPERATING PARTNERSHIP, L.P.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, in thousands)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2016	2015	2016	2015
Net income (loss)	$(1,323)	$3,058	$44,987	$11,652
Comprehensive gain (loss):				
Unrealized gain (loss) on derivative financial instruments	(3,813)	1,494	(13,218)	(1,169)
Reclassification of realized losses on derivative financial instruments to operations, net (1)	286	58	532	116
Total comprehensive gain (loss)	(3,527)	1,552	(12,686)	(1,053)
Comprehensive income (loss)	(4,850)	4,610	32,301	10,599
Comprehensive income attributable to non-controlling interest - consolidated real estate ventures	(4)	-	(6)	-
Comprehensive income (loss) attributable to Brandywine Operating Partnership, L.P.	$(4,854)	$4,610	$32,295	$10,599

(1) Amounts reclassified from comprehensive income to interest expense within the Consolidated Statements of Operations.

The accompanying notes are an integral part of these consolidated financial statements.

BRANDYWINE OPERATING PARTNERSHIP, L.P.

CONSOLIDATED STATEMENTS OF PARTNERS' EQUITY

For the six-month period ended June 30, 2016

(unaudited, in thousands, except number of shares)

	Series E-Linked Preferred Mirror Units		General Partner Capital				
	Units	Amount	Units	Amount	Accumulated Other Comprehensive Loss	Non-controlling Interest - Consolidated Real Estate Ventures	Total Partners' Equity
BALANCE, December 31, 2015	4,000,000	96,850	174,688,568	$1,836,692	(5,597)	$ 2,032	$1,929,977
Net income				44,981		6	44,987
Other comprehensive loss					(12,686)		(12,686)
Deferred compensation obligation			(8,252)	(46)			(46)
Issuance of partnership interest in consolidated real estate venture						54	54
Conversion of LP Units to Common shares			55,303	875			875
Share-based compensation activity			365,414	3,615			3,615
Adjustment of redeemable partnership units to liquidation value at period end				(2,450)			(2,450)
Redemption value of limited partnership units				(875)			(875)
Distributions to Preferred Mirror Units				(3,450)			(3,450)
Distributions to general partnership unitholders ($0.31 per unit)				(54,272)			(54,272)
BALANCE, June 30, 2016	4,000,000	$96,850	175,101,033	$1,825,070	$ (18,283)	$ 2,092	$1,905,729

The accompanying notes are an integral part of these consolidated financial statements.

BRANDYWINE OPERATING PARTNERSHIP, L.P.

CONSOLIDATED STATEMENT OF PARTNERS' EQUITY

For the six-month period ended June 30, 2015

(unaudited, in thousands, except number of shares)

	Series E-Linked Preferred Mirror Units		General Partner Capital				
	Units	Amount	Units	Amount	Accumulated Other Comprehensive Loss	Non-controlling Interest - Consolidated Real Estate Ventures	Total Partners' Equity
BALANCE, December 31, 2014	4,000,000	96,850	179,293,160	$2,041,902	(5,007)	$ 1,010	$2,134,755
Net income				11,655		(3)	11,652
Other comprehensive loss					(1,051)	(2)	(1,053)
Deferred compensation obligation			86,839				-
Issuance of partnership interest in consolidated real estate venture						1,025	1,025
Bonus share issuance			8,447	125			125
Equity issuance costs				(48)			(48)
Share-based compensation activity			509,675	2,955			2,955
Adjustment of redeemable partnership units to liquidation value at period end				1,383			1,383
Distributions to Preferred Mirror Units				(3,450)			(3,450)
Distributions to general partnership unitholders ($0.30 per unit)				(54,265)			(54,265)
BALANCE, June 30, 2015	4,000,000	$96,850	179,898,121	$2,000,257	$ (6,058)	$ 2,030	$2,093,079

The accompanying notes are an integral part of these consolidated financial statements.

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BRANDYWINE OPERATING PARTNERSHIP L.P.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

	Six-month periods ended June 30, 2016	2015
Cash flows from operating activities:		
Net income	$44,987	$11,652
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	95,780	102,041
Amortization of deferred financing costs	1,418	2,367
Amortization of debt discount/(premium), net	745	(318)
Amortization of stock compensation costs	2,947	3,568
Shares used for employee taxes upon vesting of share awards	(879)	(2,056)
Straight-line rent income	(13,699)	(11,483)
Amortization of acquired above (below) market leases, net	(3,585)	(2,633)
Straight-line ground rent expense	44	44
Provision for doubtful accounts	427	704
Net gain on real estate venture transactions	(9,057)	-
Net gain on sale of interests in real estate	(114,729)	(10,590)
Net gain from remeasurement of investment in real estate ventures	-	(758)
Loss on early extinguishment of debt - deferred financing costs	13,157	-
Provision for impairment	13,069	2,508
Real Estate Venture loss in excess of distributions	2,655	1,197
Deferred financing obligation	(528)	(612)
Changes in assets and liabilities:		
Accounts receivable	3,159	(390)
Other assets	(898)	(1,313)
Accounts payable and accrued expenses	(5,129)	(2,261)
Deferred income, gains and rent	(1,408)	(3,991)
Other liabilities	592	941
Net cash provided by operating activities	29,068	88,617
Cash flows from investing activities:		
Acquisition of properties	-	(120,379)
Acquisition of property - 1031 exchange funds applied	-	(62,812)
Proceeds from the sale of properties	748,395	80,268
Sale of property - 1031 exchange funds held in escrow	-	62,800
Distribution of sale proceeds from a real estate venture	4,812	-
Proceeds from repayment of mortgage notes receivable	-	88,000
Capital expenditures for tenant improvements	(25,939)	(39,693)
Capital expenditures for redevelopments	(8,333)	(21,844)
Capital expenditures for developments	(105,879)	(83,628)

Advances for the purchase of tenant assets, net of repayments	(3,614)	(3,003)
Investment in unconsolidated Real Estate Ventures	(15,300)	(49,139)
Deposits for real estate	(928)	(2,935)
Escrowed cash	6,993	2,113
Cash distribution from unconsolidated Real Estate Ventures in excess of cumulative equity income	10,298	5,774
Leasing costs paid	(10,220)	(10,892)
Net cash provided by (used in) investing activities	600,285	(155,370)
Cash flows from financing activities:		
Proceeds from mortgage notes payable	86,900	-
Repayments of mortgage notes payable	(301,321)	(7,046)
Proceeds from credit facility borrowings	195,000	-
Repayments of credit facility borrowings	(195,000)	-
Repayments of unsecured notes	(149,919)	-
Debt financing costs paid	(477)	(2,941)
Proceeds from the exercise of stock options	826	127
Partner contributions to consolidated real estate venture	54	1,025
Distributions paid to preferred and common partnership units	(56,513)	(57,932)
Net cash used in financing activities	(420,450)	(66,767)
Increase in cash and cash equivalents	208,903	(133,520)
Cash and cash equivalents at beginning of year	56,694	257,502
Cash and cash equivalents at end of period	$265,597	$123,982
Supplemental disclosure:		
Cash paid for interest, net of capitalized interest during the six months ended June 30, 2016 and 2015 of $7,387 and $5,623, respectively	$52,559	$63,239
Supplemental disclosure of non-cash activity:		
Change in real estate investments related to non-cash property acquisition	-	(67,261)
Change in investments in joint venture related to non-cash property acquisition	-	67,261
Dividends and distributions declared but not paid	29,880	29,021

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Change in investment in real estate ventures as a result of dispositions	2,023	-
Change in investment in real estate ventures related to non-cash disposition of property	25,165	-
Change in other liabilities from contingent consideration related to a business combination	-	1,585
Change in operating real estate from contingent consideration related to a business combination	-	(1,585)
Change in capital expenditures financed through accounts payable at period end	(4,814)	(4,142)
Change in capital expenditures financed through retention payable at period end	1,009	5,415

The accompanying notes are an integral part of these consolidated financial statements.

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BRANDYWINE REALTY TRUST AND BRANDYWINE OPERATING PARTNERSHIP, L.P.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

1. ORGANIZATION OF THE PARENT COMPANY AND THE OPERATING PARTNERSHIP

The Parent Company is a self-administered and self-managed real estate investment trust ("REIT") that provides leasing, property management, development, redevelopment, acquisition and other tenant-related services for a portfolio of office, retail and mixed-use properties. The Parent Company owns its assets and conducts its operations through the Operating Partnership and subsidiaries of the Operating Partnership. The Parent Company is the sole general partner of the Operating Partnership and, as of June 30, 2016, owned a 99.1% interest in the Operating Partnership. The Parent Company's common shares of beneficial interest are publicly traded on the New York Stock Exchange under the ticker symbol "BDN".

As of June 30, 2016, the Company owned 120 properties that contain an aggregate of approximately 18.1 million net rentable square feet and consist of 102 office properties, nine mixed-use properties, one retail property (112 properties, collectively the "Core Properties"), four development properties, two redevelopment properties and two properties classified as held for sale (collectively, the "Properties"). In addition, as of June 30, 2016, the Company owned economic interests in 16 unconsolidated real estate ventures (collectively, the "Real Estate Ventures"), of which eight own properties that contain approximately 7.9 million net rentable square feet of office space; two own 4.3 acres of undeveloped parcels of land; three own 2.2 acres of land under active development; one owns a residential tower that contains 345 apartment units and one owns an apartment complex that contains 398 units. Additionally, on June 30, 2016, one real estate venture, in which the Company owns a 50% interest, sold its interest in an office property, comprised of 172,286 square feet, located in Berwyn, Pennsylvania. As of June 30, 2016, the Company also owned 285 acres of undeveloped land and held options to purchase parcels containing approximately 50 additional acres of undeveloped land. As of June 30, 2016, the total potential development that these land parcels could support, including the parcels under option, under current zoning, entitlements or combination thereof, amounted to an estimated 6.3 million square feet. The Properties and the properties owned by the Real Estate Ventures are located in or near Philadelphia, Pennsylvania; Metropolitan Washington, D.C.; Southern New Jersey; Richmond, Virginia; Wilmington, Delaware; Austin, Texas and Oakland and Concord, California. In addition to managing properties that the Company owns, as of June 30, 2016, the Company was managing approximately 11.2 million net rentable square feet of office and industrial properties for third parties and Real Estate Ventures.

Prior to the MAP Venture formation on February 4, 2016 (See Note 4, "Investment in Unconsolidated Real Estate Ventures"), the Company's consolidated portfolio included 20 industrial properties. Upon consummation of the MAP Venture formation and as of June 30, 2016, the Company held six remaining industrial properties, which the Company classified as mixed-use.

The Company conducts its third-party real estate management services business primarily through wholly-owned management company subsidiaries. As of June 30, 2016, the management company subsidiaries were managing properties containing an aggregate of approximately 29.2 million net rentable square feet, of which approximately 18.0 million net rentable square feet related to Properties owned by the Company and approximately 11.2 million net rentable square feet related to properties owned by third parties and Real Estate Ventures.

Unless otherwise indicated, all references in this Form 10-Q to square feet represent net rentable area.

2. BASIS OF PRESENTATION

Basis of Presentation

The consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) for interim financial statements. Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments (consisting solely of normal recurring matters) for a fair statement of the financial position of the Company as of June 30, 2016, the results of its operations for the three and six-month periods ended June 30, 2016 and 2015 and its cash flows for the six-month periods ended June 30, 2016 and 2015 have been included. The results of operations for such interim periods are not necessarily indicative of the results for a full year. These consolidated financial statements should be read in conjunction with the Parent Company’s and the Operating Partnership’s consolidated financial statements and footnotes included in their combined 2015 Annual Report on Form 10-K filed with the SEC on February 29, 2016.

On January 1, 2016, the Company adopted accounting guidance under Accounting Standards Codification (ASC) Topic 810, "Consolidation," modifying the analysis it must perform to determine whether it should consolidate certain types of legal entities. The guidance does not amend the existing disclosure requirements for variable interest entities ("VIEs") or voting interest model entities. The guidance, however, modified the requirements to qualify under the voting interest model. Under the revised guidance, the Operating Partnership is a variable interest entity of the Parent Company. As the Operating Partnership is already consolidated in the balance sheets of the Parent Company, the identification of this entity as a variable interest entity has no impact on the consolidated financial statements of the Parent Company. There were no other legal entities qualifying under the scope of the revised guidance that were consolidated as a result of the adoption of this guidance. In addition, there were no other voting interest entities under prior existing guidance determined to be variable interest entities under the revised guidance.

The Company's Annual Report on Form 10-K for the year ended December 31, 2015 contains a discussion of our significant accounting policies under Note 2, "Summary of Significant Accounting Policies". There have been no significant changes in our significant accounting policies since December 31, 2015. Management discusses our significant accounting policies and management's judgments and estimates with the Company's Audit Committee.

Recent Accounting Pronouncements

In May 2016, the Financial Accounting Standards Board (FASB) issued guidance amending the revenue from contracts with customers standard issued in May 2014 (and not yet effective). The amendments are intended to address implementation issues that were raised by stakeholders and discussed by the Joint Transition Resource Group, and provide additional practical expedients on collectability, noncash consideration, presentation of sales tax and contract modifications and completed contracts at transition. In accordance with the FASB election to defer the effective date of the revenue recognition standard by one year, reporting entities may choose to adopt the standard as of its original effective date or for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Calendar year-end reporting entities are therefore required to apply the new revenue guidance beginning in their 2018 interim and annual financial statements. The Company is in the process of evaluating the impact of this new guidance and has not yet determined the impact, if any, that the adoption of this guidance will have on its consolidated financial statements.

In March 2016, the FASB issued guidance intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. The new guidance allows for entities to make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. In addition, the guidance allows employers to withhold shares to satisfy minimum statutory tax withholding requirements up to the employees' maximum individual tax rate without causing the award to be classified as a liability. The guidance also stipulates that cash paid by an employer to a taxing authority when directly withholding shares for tax-withholding purposes should be classified as a financing activity on the statement of cash flows. This guidance is effective for annual reporting periods beginning after December 15, 2016, and interim periods within that reporting period. Early adoption is permitted in any interim or annual period, with any adjustments reflected as of the beginning of the fiscal year of adoption. The Company is in the process of evaluating the impact of this new guidance and has not yet determined the impact, if any, that the adoption of this guidance will have on its consolidated financial statements.

Also in March 2016, the FASB issued guidance clarifying that a novation of party to a derivative instrument, whereby one of the parties to a derivative instrument is replaced with another party, does not, in and of itself, require de-designation of that hedging relationship provided that all other hedge criteria continue to be met. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. An entity has an option to apply the amendments either on a prospective basis or on a modified retrospective basis. The Company is in the process of evaluating the impact of this new guidance and has not

yet determined the impact, if any, that the adoption of this guidance will have on its consolidated financial statements.

In February 2016, the FASB issued guidance modifying the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for in the same manner as operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The guidance supersedes previously issued guidance under ASC Topic 840 "Leases." The guidance is effective on January 1, 2019, with early adoption permitted. The Company is in the process of evaluating the impact of this new guidance and has not yet determined the impact, if any, that the adoption of this guidance will have on its consolidated financial statements.

In May 2014, the FASB issued the revenue from contracts with customers standard requiring revenue to be recognized in an amount that reflects the consideration expected to be received in exchange for goods and services. The standard requires the disclosure of sufficient quantitative and qualitative information for financial statement users to understand the nature, amount, timing and uncertainty of revenue and associated cash flows arising from contracts with customers. On July 9, 2015, the FASB elected to defer the effective date of this revenue recognition standard by one year. Reporting entities may choose to adopt the standard as of the original effective date or for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Calendar year-end reporting entities are therefore required to apply the new revenue guidance beginning in their 2018 interim and annual financial statements. The Company is in the process of evaluating the impact of this new standard and has not yet determined the impact, if any, that the adoption of this standard will have on its consolidated financial statements.

3. REAL ESTATE INVESTMENTS

As of June 30, 2016 and December 31, 2015, the gross carrying value of the Properties were as follows (in thousands):

	June 30, 2016	December 31, 2015
Land	$497,732	$ 513,268
Building and improvements (a)	2,760,572	2,719,780
Tenant improvements (a)	463,101	459,952
	3,721,405	3,693,000
Assets held for sale - real estate investments (b)	17,622	794,588
Total	$3,739,027	$ 4,487,588

(a) The net increase primarily relates to the office component of the FMC Tower at Cira Centre South in Philadelphia, Pennsylvania being placed into service during the three-month period ended June 30, 2016, offset partially by the classification of 1120 Executive Boulevard in Mount Laurel, New Jersey as held for sale as of June 30, 2016.

(b) Real estate investments related to assets held for sale above represents gross real estate assets and does not include accumulated depreciation or intangible assets on the balance sheets of the properties held for sale.

Dispositions

The Company sold the following office properties during the six-month period ended June 30, 2016 (dollars in thousands):

Disposition Date	Property/Portfolio Name	Location	Number of Properties	Rentable Square Feet	Sales Price	Net Proceeds on Sale	Gain (Loss) on Sale (a)	
May 11, 2016	196/198 Van Buren Street (Herndon Metro Plaza I&II)	Herndon, VA	2	197,225	$44,500	$43,412	$(752)	(b)
February 5, 2016	2970 Market Street (Cira Square)	Philadelphia, PA	1	862,692	354,000	350,150	115,828	
February 4, 2016	Och-Ziff Portfolio	Various (c)	58	3,924,783	398,100	353,971	(372)	(d)
Total Dispositions			61	4,984,700	$796,600	$747,533	$114,704	

(a) Gain/(Loss) on Sale is net of closing and other transaction related costs.

(b) During the three-month period ended March 31, 2016, the Company recognized an impairment loss totaling approximately $7.4 million on the properties. The loss on sale represents additional closing costs recognized at settlement.

(c) Exhibit 99.2 to the Company’s Current Report on Form 8-K filed on February 10, 2016 contains a complete list of the 58 properties disposed of in the transactions with Och-Ziff Capital Management. See Note 4, "Investment in Unconsolidated Real Estate Ventures," for further details of the transactions.

(d) During the three-month period ended December 31, 2015, the Company recognized an impairment loss totaling approximately $45.4 million. The loss on sale represents additional closing costs recognized at settlement.

On January 15, 2016, the Company sold 120 acres of undeveloped land located in Berks County Pennsylvania for a sales price of $0.9 million. The land was classified as held for sale as of December 31, 2015. The carrying value of the land exceeded the fair value less the anticipated costs of sale as of December 31, 2015, therefore the Company recognized an impairment loss of $0.3 million during the three-month period ended December 31, 2015. There was no gain or loss recognized on the sale of the land during the three-month period ended March 31, 2016.

The sales of the properties and land referenced above do not represent a strategic shift that has a major effect on the Company's operations and financial results. The operating results of these properties remain classified within continuing operations for all periods presented.

Held for Use Impairment

During the three-month period ended June 30, 2016, the Company evaluated the recoverability of the carrying value of its properties under the undiscounted cash flow model. Based on the analysis, it was determined that due to the reduction in management's intended hold period of a property located in the Metropolitan D.C. segment, the Company would not recover the carrying value of that property. Accordingly, the Company recorded an impairment charge on the property of $3.9 million at June 30, 2016, reducing the aggregate carrying value of the property from $37.4 million to its estimated fair value of $33.5 million. The Company measured this impairment based on a discounted cash flow analysis, using a hold period of 10 years and residual capitalization rate and discount rate of 7.75% and 8.25%, respectively. The results were compared to indicative pricing in the market. The assumptions used to determine fair value are Level 3 inputs in accordance with the fair value hierarchy established by Accounting Standards Codification (ASC) Topic 820, "Fair Value Measurements and Disclosures."

During the three-month period ended March, 31, 2016, the Company evaluated the recoverability of the carrying value of its properties under the undiscounted cash flow model. Based on the analysis, it was determined that due to a reduction in management's intended hold period, the Company would not recover the carrying value of two properties located in its Metropolitan D.C. segment. Accordingly, the Company recorded an impairment charge of $7.4 million at March 31, 2016 reducing the aggregate carrying values of these properties from $51.9 million to their estimated fair values of $44.5 million. The Company measured these impairments based on a discounted cash flow analysis, using a hold period of 10 years and residual capitalization rates and discount rates of 7.0%. The results were compared to indicative pricing in the market. The assumptions used to determine fair value are Level 3 inputs in accordance with the fair value hierarchy established by Accounting Standards Codification (ASC) Topic 820, "Fair Value Measurements and Disclosures."

Held for Sale

The following is a summary of properties classified as held for sale but which did not meet the criteria to be classified within discontinued operations at June 30, 2016 (in thousands):

	Held for Sale Properties Included in Continuing Operations June 30, 2016		
	1120 Executive Boulevard (a)	Oakland Lot B (b)	Total
ASSETS HELD FOR SALE			
Real estate investments:			
Operating properties	$13,256	$4,366	$17,622
Accumulated depreciation	(6,005)	(4)	(6,009)
Operating real estate investments, net	7,251	4,362	11,613
Construction-in-progress	675	-	675
Total real estate investments, net	7,926	4,362	12,288
Other assets	20	-	20
Total assets held for sale, net	$7,946	$4,362	$12,308
LIABILITIES HELD FOR SALE			
Other liabilities	$11	$-	$11

Total liabilities held for sale	$11	$ -	$11

(a) On June 1, 2016, the Company entered into an agreement to sell an office property containing 95,183 square feet at 1120 Executive Boulevard located in Mount Laurel, New Jersey. As of June 30, 2016, the Company determined that the sale of the property was probable and classified this property as held for sale in accordance with applicable accounting standards for long lived assets. At such date, the carrying value of the property exceeded the fair value less the anticipated costs of sale. As a result, the Company recognized an impairment loss totaling approximately $1.8 million during the three-month period ended June 30, 2016. The fair value measurement was based on the pricing in the purchase and sale agreement. As significant inputs to the model are unobservable, the Company determined that the value determined for this property falls within Level 3 fair value reporting.

(b) During the three-month period ended June 30, 2016, the Company determined that the sale of a property located in Oakland, California, known as Oakland Lot B, was probable and classified it as held for sale in accordance with applicable accounting standards for long lived assets. As the fair value less anticipated costs to sell exceeded the carrying value of the property no impairment loss was recorded. The fair value measurement was based on pricing in the purchase and sale agreement. As the sales price is unobservable, the Company determined that the significant inputs used to value this property falls within Level 3 for fair value reporting.

The sales of the property and land referenced above as held for sale do not represent a strategic shift that has a major effect on the Company's operations and financial results. The operating results of these properties remain classified within continuing operations for all periods presented.

4. INVESTMENT IN UNCONSOLIDATED REAL ESTATE VENTURES

As of June 30, 2016, the Company held ownership interests in 16 unconsolidated Real Estate Ventures for an aggregate investment balance of $272.1 million. The Company formed or acquired interests in these Real Estate Ventures with unaffiliated third parties to develop or manage office, residential, and/or mixed-use properties or to acquire land in anticipation of possible development of office, residential and/or mixed-use properties. As of June 30, 2016, eight of the real estate ventures owned 73 office and 14 industrial buildings that contain an aggregate of approximately 7.9 million net rentable square feet; two real estate ventures owned 4.3 acres of undeveloped parcels of land; three real estate ventures owned 2.2 acres of land under active development; one real estate venture owned a residential tower that contains 345 apartment units and one real estate venture owned an apartment complex that contains 398 units. Additionally, on June 30, 2016, one real estate venture, in which the Company owns a 50% interest, sold its interest in an office property, comprised of 172,286 square feet, located in Berwyn, Pennsylvania. The proceeds from the sale had not been distributed to the Company at June 30, 2016 and, as a result, the carrying amount of the Company’s investment at the sale date remained on the balance sheet at June 30, 2016. See discussion under “1000 Chesterbrook” below for further information regarding this transaction.

The Company accounts for its unconsolidated interests in the Real Estate Ventures using the equity method. The Company’s unconsolidated interests range from 20% to 70%, subject to specified priority allocations of distributable cash in certain of the Real Estate Ventures.

The Company earned management fees from its Real Estate Ventures of $3.8 million and $7.2 million for the three- and six-month periods ended June 30, 2016 and $3.4 million and $6.0 million for the three- and six-month periods ended June 30, 2015, respectively. The Company has outstanding accounts receivable balances from its Real Estate Ventures of $1.5 million and $1.7 million as of June 30, 2016 and December 31, 2015, respectively.

The amounts reflected in the following tables (except for the Company’s share of equity and income) are based on the financial information of the individual Real Estate Ventures. The Company does not record operating losses of a Real Estate Venture in excess of its investment balance unless the Company is liable for the obligations of the Real Estate Venture or is otherwise committed to provide financial support to the Real Estate Venture.

The following is a summary of the financial position of the Real Estate Ventures as of June 30, 2016 and December 31, 2015 (in thousands):

	June 30, 2016	December 31, 2015
Net property	$ 1,457,952	$ 1,258,999
Other assets	245,065	158,672
Other liabilities	129,173	69,028
Debt, net	985,326	794,571
Equity	588,518	554,072
Company’s share of equity (Company’s basis) (a) (b)	$ 272,148	$ 241,004

(a) This amount includes the effect of the basis difference between the Company's historical cost basis and the basis recorded at the Real Estate Venture level, which is typically amortized over the life of the related assets and liabilities. Basis differentials occur from the impairment of investments, purchases of third party interests in

existing Real Estate Ventures and upon the transfer of assets that were previously owned by the Company into a Real Estate Venture. In addition, certain acquisition, transaction and other costs may not be reflected in the net assets at the Real Estate Venture level.

(b) Does not include the negative investment balance in one real estate venture totaling $1.1 million as of December 31, 2015, which is included in other liabilities. There is no negative investment balance as of June 30, 2016 because the Company sold its entire remaining 50% interest in the applicable real estate venture (See “Coppell Associates” section below) during the three month period ended March 31, 2016.

The following is a summary of results of operations of the Real Estate Ventures in which the Company had interests during the three- and six-months periods ended June 30, 2016 and 2015 (in thousands):

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2016	2015	2016	2015
Revenue	$53,406	$43,239	$99,931	$89,348
Operating expenses	(27,088)	(19,132)	(53,755)	(37,665)
Interest expense, net	(10,928)	(10,136)	(19,917)	(19,982)
Depreciation and amortization	(20,242)	(17,412)	(40,403)	(36,536)
Net loss (a)	$(4,852)	$(3,441)	$(14,144)	$(4,835)
Company’s share of income (loss) (Company’s basis)	$(1,666)	$(873)	$(2,069)	$(742)

(a) The six-month period ended June 30, 2016 amount includes $7.1 million of acquisition deal costs related to the formation of the MAP Venture during the three-month period ended March 31, 2016.

1000 Chesterbrook

On June 30, 2016, the real estate venture known as 1000 Chesterbrook sold its office property, comprised of 172,286 square feet, located in Berwyn, Pennsylvania for a sales price of $32.1 million. As of June 30, 2016, the Company owns a 50% interest in the 1000 Chesterbrook real estate venture. The proceeds to 1000 Chesterbrook, net of closing costs, pro-ration adjustments and $23.2 million of debt assumed by the buyer, were $9.8 million. The Company recorded $3.2 million for its proportionate share of the Venture’s gain which is reflected in “Gain on Real Estate Venture transactions” on the accompanying statement of operations. The proceeds from the sale, along with $0.2 million of working capital, had not been distributed to the Company as of June 30, 2016 and, as a result, the carrying amount of the Company’s investment in 1000 Chesterbrook, which amounted to $5.1 million at the sale date, remained on the balance sheet at June 30, 2016. See Note 14, "Subsequent Events," for information relating to the distribution.

evo at Cira Centre South Venture

On January 25, 2013, the Company formed HSRE-Campus Crest IX Real Estate Venture ("evo at Cira"), a joint venture among the Company and two unaffiliated third parties: Campus Crest Properties, LLC ("Campus Crest") and HSRE-Campus Crest IXA, LLC ("HSRE"). From formation through March 2, 2016, each of the Company and Campus Crest owned a 30% interest in evo at Cira and HSRE owned a 40% interest. At formation, the Company contributed to evo at Cira its tenancy rights under a long-term ground lease of one acre of land located in the University City submarket of Philadelphia, Pennsylvania, together with associated development rights, at an agreed-upon value of $8.5 million. During the three-month period ended September 30, 2014, evo at Cira completed construction of a 33-story, 850-bed student housing tower on the contributed one-acre ground lease. As of December 31, 2014, the Company and other members of evo at Cira had funded 100% of their respective shares of committed equity contributions and the real estate venture had fully drawn on its $97.8 million construction facility.

On March 2, 2016, the Company paid $12.8 million of cash and HSRE paid $6.6 million of cash to purchase Campus Crest’s entire 30% interest in evo at Cira and, as a result, each of the Company and HSRE owns a 50% interest in evo at Cira. Subsequent to the transaction, the Company’s investment basis in evo at Cira is $28.3 million. In conjunction with the purchase, the Company and HSRE entered into an amended and restated operating agreement to govern their rights and obligations as sole members of evo at Cira.

On June 10, 2016, evo at Cira refinanced its $97.8 million construction facility maturing July 25, 2016 with a $117.0 million term loan bearing interest at LIBOR + 2.25% capped at a total maximum interest of 5.25% and maturing on October 31, 2019, with options to extend the term to June 30, 2021. evo at Cira received an advance of $105.0 million at closing. The additional $12.0 million capacity under the term loan may be funded if certain criterion relating to the operating performance of the student housing tower are met. The term loan is secured by a leasehold mortgage that holds absolute assignment of leases and rents. Subsequent to refinancing and the receipt of amounts in escrow under the construction loan, evo at Cira distributed $6.3 million to the Company.

The Company accounted for its investment in evo at Cira under the equity method of accounting. Based upon the reconsideration event caused by the refinancing of evo at Cira's construction facility, the Company reassessed its consolidation conclusion. The Company determined that this Real Estate Venture is no longer a VIE in accordance with the accounting standard for the consolidation of VIEs because evo at Cira, through the refinancing of the construction facility and without further support from the Company or HSRE, demonstrated that it has sufficient equity at risk to finance its activities. As a result, the Company used the voting interest model under the accounting standard for consolidation in order to determine whether to consolidate evo at Cira. Based upon each member's substantive participating rights over the activities that significantly impact the operations and revenues of evo at Cira under the operating agreement and related agreements, evo at Cira is not consolidated by the Company, and is accounted for under the equity method of

accounting. As a result of this transaction, the Company did not gain a controlling financial interest over evo at Cira; therefore, it was not required to remeasure its previously held equity interest to fair value at the date that it acquired the additional equity interest.

MAP Venture

On February 4, 2016, Brandywine Operating Partnership, L.P., together with subsidiaries of the Operating Partnership, entered into a series of related transactions (the “Och-Ziff Sale”) with affiliates of Och-Ziff Capital Management Group LLC (“Och-Ziff”) that resulted in the disposition by the Company of 58 office properties that contain an aggregate of 3,924,783 square feet for an aggregate purchase price of $398.1 million. The 58 properties are located in the Pennsylvania Suburbs, New Jersey/Delaware, Metropolitan Washington, D.C. and Richmond, Virginia segments. The related transactions involved: (i) the sale by the Company to MAP Fee Owner LLC, an affiliate of Och-Ziff (the “O-Z Land Purchaser”), of 100% of the Company’s fee interests in the land parcels (the “Land Parcels”) underlying the 58 office properties, together with rights to be the lessor under long-term ground leases (the “Ground Leases”) covering the Land Parcels; (ii) the Company’s formation of MAP Ground Lease Venture LLC (the “MAP Venture”) with MAP Ground Lease Holdings LLC, an affiliate of Och-Ziff (the “O-Z Venture Partner”), (iii) the Company’s sale to MAP Venture of the office buildings and related improvements (the “Buildings”) situated on the Land Parcels; and (iv) the retention of a 50% non-controlling equity interest in the MAP Venture.

The MAP Venture leases the Land Parcels from O-Z Land Purchaser through a ground lease that extends through February 2115. Annual payments by the MAP Venture, as tenant under the Ground Leases, initially total $11.9 million and increase 2.5% annually through November 2025.

At closing on February 4, 2016, the MAP Venture obtained a third party non-recourse debt financing of approximately $180.8 million secured by mortgages on the Buildings of the MAP Venture.

As a result of this transaction, the Company received $354.0 million in proceeds and maintains a 50% ownership interest in the MAP Venture valued as of February 4, 2016 at $25.2 million, which holds the leasehold interest in the Buildings. The MAP Venture was formed as a limited liability company in which the Company has been designated as the Managing Member. In addition, through an affiliate, the Company provides property management services at the Buildings on behalf of the MAP Venture for a market based management fee.

The Company has determined that the MAP Venture is a VIE in accordance with the accounting standard for consolidation of VIE’s. As a result, the Company used the VIE model under the accounting standard for consolidations to determine if it will consolidate the MAP Venture. Based on the provisions in the limited liability company agreement, the Company determined that it shares with O-Z Venture Partner the power to control the activities that most significantly impact the economics of the MAP Venture. Since control is shared, the Buildings were deconsolidated by the Company and accounted for under the equity method of accounting.

The Company is not required to fund the operating losses of the MAP Venture. Accordingly, it can only incur losses equal to its investment basis in MAP Venture.

The Company has determined that this transaction does not represent a significant shift in the Company’s operations that have a major impact on the Company’s economic performance. As a result, the properties are not classified as discontinued operations on the consolidated financial statements.

Coppell Associates

On January 29, 2016, the Company sold its entire 50% interest in an unconsolidated real estate venture known as Coppell Associates. The proceeds to the Company, net of closing costs and related debt payoff, were $4.6 million. The carrying amount of the Company’s investment in Coppell Associates amounted to a $1.1 million liability at the sale date, resulting in a $5.7 million gain on sale of its interest in the real estate venture. The investment was in a liability position because the Company, as a general partner, was required to fund losses of Coppell Associates. The negative investment balance represented the Company’s share of unfunded cumulative losses incurred in excess of its investment basis as of the date of sale.

Guarantees

As of June 30, 2016, the Company had provided guarantees on behalf of certain real estate ventures, consisting of (i) a $3.2 million payment guarantee on the $56.0 million construction loan for TB-BDN Plymouth Apartments; (ii) a several cost overrun guaranty on the $88.9 million construction loan for the development project being undertaken by 1919 Market Street LP; and (iii) a $0.5 million payment guarantee on a loan provided to PJP VII. In addition, during construction undertaken by real estate ventures, the Company has provided and expects to continue to provide cost overrun and completion guarantees, with rights of contribution among partners or members in the real estate ventures, as well as customary environmental indemnities and guarantees of customary exceptions to nonrecourse provisions in loan agreements. For additional information regarding these real estate ventures, see Note 4, "Investment in Unconsolidated Real

Estate Ventures," in the notes to the audited financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

5. INTANGIBLE ASSETS AND LIABILITIES

As of June 30, 2016 and December 31, 2015, the Company’s intangible assets/liabilities were comprised of the following (in thousands):

	June 30, 2016		
	Total Cost	Accumulated Amortization	Intangible Assets, net
Intangible assets, net:			
In-place lease value	$147,858	$ (64,085)	$ 83,773
Tenant relationship value	15,596	(12,084)	3,512
Above market leases acquired	4,718	(1,989)	2,729
Total intangible assets, net	$168,172	$ (78,158)	$ 90,014
Acquired lease intangibles, net:			
Below market leases acquired	$45,658	$ (24,245)	$ 21,413

	December 31, 2015		
	Total Cost	Accumulated Amortization	Intangible Assets, net
Intangible assets, net:			
In-place lease value	$161,276	$ (57,063)	$104,213
Tenant relationship value	20,117	(15,580)	4,537
Above market leases acquired	5,333	(1,879)	3,454
	186,726	(74,522)	112,204
Assets held for sale	(2,854)	2,273	(581)
Total intangible assets, net	$183,872	$ (72,249)	$111,623
Acquired lease intangibles, net:			
Below market leases acquired	$50,025	$ (24,178)	$25,847
Assets held for sale	(1,069)	877	(192)
Total acquired lease intangibles, net	$48,956	$ (23,301)	$25,655

As of June 30, 2016, the Company’s annual amortization for its intangible assets/liabilities were as follows (in thousands, and assuming no prospective early lease terminations):

	Assets	Liabilities
2016 (six months remaining)	$14,239	$ 3,294
2017	19,658	3,323
2018	11,753	2,196
2019	10,542	1,885
2020	8,456	1,337
Thereafter	25,366	9,378
Total	$90,014	$ 21,413

6. DEBT OBLIGATIONS

The following table sets forth information regarding the Company's consolidated debt obligations outstanding at June 30, 2016 and December 31, 2015 (in thousands):

	June 30, 2016	December 31, 2015	Effective Interest Rate		Maturity Date
MORTGAGE DEBT:					
Fairview Eleven Tower (a)	$20,665	$ 20,838	4.25	%	Jan 2017
Two Logan Square	86,774	86,886	3.98	% (b)	May 2020
One Commerce Square	128,661	130,000	3.64	%	Apr 2023
Two Commerce Square	112,000	112,000	4.51	% (c)	Apr 2023
IRS Philadelphia Campus (d)	-	177,425	7.00	%	Sep 2030
Cira South Garage (d)	-	35,546	7.12	%	Sep 2030
Principal balance outstanding	348,100	562,695			
Plus: fair market value premium (discount), net	(2,979)	(3,198)			
Less: deferred financing costs	(813)	(13,744)			
Mortgage indebtedness	$344,308	$ 545,753			
UNSECURED DEBT					
Seven-Year Term Loan - Swapped to fixed	$250,000	$ 250,000	3.72	%	Oct 2022
$250.0M 6.00% Guaranteed Notes due 2016 (e)	-	149,919	5.95	%	Apr 2016
$300.0M 5.70% Guaranteed Notes due 2017	300,000	300,000	5.68	%	May 2017
$325.0M 4.95% Guaranteed Notes due 2018	325,000	325,000	5.13	%	Apr 2018
$250.0M 3.95% Guaranteed Notes due 2023	250,000	250,000	4.02	%	Feb 2023
$250.0M 4.10% Guaranteed Notes due 2024	250,000	250,000	4.33	%	Oct 2024
$250.0M 4.55% Guaranteed Notes due 2029	250,000	250,000	4.60	%	Oct 2029
Indenture IA (Preferred Trust I)	27,062	27,062	2.75	%	Mar 2035
Indenture IB (Preferred Trust I)	25,774	25,774	3.30	%	Apr 2035
Indenture II (Preferred Trust II)	25,774	25,774	3.09	%	Jul 2035
Principal balance outstanding	1,703,610	1,853,529			
Plus: original issue premium (discount), net	(5,186)	(5,714)			
Less: deferred financing costs	(8,111)	(8,851)			
Total unsecured indebtedness	$1,690,313	$ 1,838,964			
Total Debt Obligations	$2,034,621	$ 2,384,717			

(a) Represents the full debt amount of a property in a consolidated real estate venture in which the Company holds a 50% interest.

(b) On April 7, 2016, the Company closed on an $86.9 million first mortgage financing on Two Logan Square, a 708,844-square foot office property located in Philadelphia, Pennsylvania. Proceeds of the loan were used to repay, without penalty, the $86.6 million principal balance of the former Two Logan Square first mortgage loan, which had a 7.57% effective interest rate.

(c)This loan was assumed upon acquisition of Two Commerce Square on December 19, 2013. The interest rate reflects the market rate at the time of acquisition. A default under this loan will also constitute a default under the loan outstanding on One Commerce Square, and a default under the One Commerce Square loan will also constitute a default under this loan. This loan is also secured by a lien on One Commerce Square and the loan on Two Commerce Square.

(d)On January 14, 2016, the Company funded $265.8 million to prepay two mortgage loans, consisting of $176.9 million of principal repayment, $44.5 million in prepayment charges and a nominal amount of accrued interest, in repayment of the mortgage indebtedness on the office property located at 2970 Market Street in Philadelphia, Pennsylvania commonly known as 30th Street Main Post Office ("Cira Square"), ahead of its scheduled maturity date of September 10, 2030. Also on January 14, 2016, the Company funded $44.4 million, consisting of $35.5 million of principal repayment, $8.9 million in prepayment charges and a nominal amount of accrued interest, in repayment of the mortgage indebtedness of a 1,662 parking space facility located in Philadelphia, Pennsylvania commonly known as ("Cira South Garage"), ahead of its scheduled maturity date of September 10, 2030. These repayments were financed with $195.0 million of funds available under the unsecured revolving credit facility with the remaining balance funded through available cash balances. The Company recognized a $66.6 million loss on extinguishment of debt, consisting of the prepayment charges along with $10.8 million and $2.4 million related to non-cash charges for deferred

financing costs for Cira Square and Cira South Garage, respectively.

(e)On April 1, 2016, the entire principal balance of the 2016 6.00% Guaranteed Unsecured Notes was repaid upon maturity. Available cash balances were used to fund the repayment of the unsecured notes.

As of June 30, 2016, and December 31, 2015, the Company's weighted-average effective interest rate on its mortgage notes payable was 4.04% and 5.72%, respectively. As of June 30, 2016 and December 31, 2015, the net carrying value of the Company's Properties that are encumbered by mortgage indebtedness was $348.1 million and $562.7 million, respectively.

On May 15, 2015, the Company closed on a new four-year unsecured revolving credit facility that provides for borrowings of up to $600.0 million. The Company had no borrowings under its unsecured revolving credit facility as of June 30, 2016.

The Parent Company unconditionally guarantees the unsecured debt obligations of the Operating Partnership (or is a co-borrower with the Operating Partnership) but does not by itself incur unsecured indebtedness. The Parent Company has no material assets other than its investment in the Operating Partnership.

The Company was in compliance with all financial covenants as of June 30, 2016. Management continuously monitors the Company's compliance with and anticipated compliance with the covenants. Certain of the covenants restrict management's ability to obtain alternative sources of capital. While the Company currently believes it will remain in compliance with its covenants, in the event that the economy deteriorates in the future, the Company may not be able to remain in compliance with such covenants, in which case a default would result absent a lender waiver.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets and liabilities recorded on the consolidated balance sheets are categorized based on the inputs to the valuation techniques as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access;

- Level 2 inputs are inputs, other than quoted prices included in Level 1, which are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals; and

- Level 3 inputs are unobservable inputs for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity or information.

The Company determined the fair values disclosed below using available market information and discounted cash flow analyses as of June 30, 2016 and December 31, 2015, respectively. The discount rate used in calculating fair value is the sum of the current risk free rate and the risk premium on the date of measurement of the instruments or obligations. Considerable judgment is necessary to interpret market data and to develop the related estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amounts that the Company could realize upon disposition. The use of different estimates and valuation methodologies may have a material effect on the fair value amounts shown. The Company believes that the carrying amounts reflected in the consolidated balance sheets at June 30, 2016 and December 31, 2015 approximate the fair values for cash and cash equivalents, accounts receivable, other assets, accounts payable and accrued expenses. The following are financial instruments for which the Company's estimates of fair value differ from the carrying amounts (in thousands):

	June 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Unsecured notes payable	$1,363,770	$1,413,363	$1,512,554	$1,529,346
Variable rate debt	$326,543	$305,383	$326,410	$305,522
Mortgage notes payable	$344,308	$362,427	$545,753	$597,377

The fair value of the Company's unsecured notes payable is categorized at a Level 2 basis (as provided by the accounting standard for Fair Value Measurements and Disclosures). This is because the Company valued these instruments using quoted market prices as of June 30, 2016 and December 31, 2015. For the fair value of the Company's unsecured notes, the Company uses a discount rate based on the indicative new issue pricing provided by lenders.

The fair value of the Company's mortgage notes payable and variable rate debt are all categorized at a Level 3 basis (as provided by the accounting standard for Fair Value Measurements and Disclosures). The fair value of the variable rate debt was estimated using a discounted cash flow analysis valuation on the borrowing rates currently available to the Company for loans with similar terms and maturities, as applicable. The fair value of the mortgage debt was determined by discounting the future contractual interest and principal

payments by a blended market rate for loans with similar terms, maturities and loan-to-value. These financial instruments have been categorized as Level 3 because the Company considers the rates used in the valuation techniques to be unobservable inputs.

For the Company's mortgage loans, the Company uses an estimate based discounted cash flow analyses and its knowledge of the mortgage market. The weighted average discount rate for the combined variable rate debt and mortgage loans used as to calculate fair value as of June 30, 2016 and December 31, 2015 was 4.480% and 4.550%, respectively. An increase in the discount rate used in the discounted cash flow model would result in a decrease to the fair value of the Company's long-term debt. Conversely, a decrease in the discount rate used in the discounted cash flow model would result in an increase to the fair value of the Company's long-term debt.

Disclosure about the fair value of financial instruments is based upon pertinent information available to management as of June 30, 2016 and December 31, 2015. Although management is not aware of any factors that would significantly affect the fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since June 30, 2016, and current estimates of fair value may differ from the amounts presented herein.

8. LIMITED PARTNERS' NON-CONTROLLING INTERESTS IN THE PARENT COMPANY

Non-controlling interests in the Parent Company's financial statements relate to redeemable common limited partnership interests in the Operating Partnership held by parties other than the Parent Company and properties which are consolidated but not wholly owned.

Operating Partnership

The aggregate book value of the non-controlling interests associated with the redeemable common limited partnership interests in the accompanying consolidated balance sheet of the Parent Company as of June 30, 2016 and December 31, 2015 was $15.3 million and $16.1 million, respectively. Under the applicable accounting guidance, the redemption value of limited partnership units are carried at, on a limited partner basis, the greater of historical cost adjusted for the allocation of income and distributions or fair value. The Parent Company believes that the aggregate settlement value of these interests based on the number of units outstanding and the closing price of the common shares on the balance sheet dates as of June 30, 2016 and December 31, 2015, respectively, was approximately $24.9 million and $21.0 million.

9. FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The following table summarizes the terms and fair values of the Company's derivative financial instruments as of June 30, 2016 and December 31, 2015. The notional amounts provide an indication of the extent of the Company's involvement in these instruments at that time, but do not represent exposure to credit, interest rate or market risks (amounts presented in thousands and included in other liabilities on the Company's consolidated balance sheets).

Hedge Product	Hedge Type	Designation	Notional Amount	Strike	Trade Date	Maturity Date	Fair value

				6/30/2016	12/31/2015				6/30/2016	12/31/2015
(Liabilities) / Assets										
Swap	Interest Rate	Cash Flow	(a)	$250,000	$250,000	3.718%	October 8, 2015	October 8, 2022	$(9,909)	$1,884
Swap	Interest Rate	Cash Flow	(a)	25,774	25,774	3.300%	December 22, 2011	January 30, 2021	(1,351)	(531)
Swap	Interest Rate	Cash Flow	(a)	25,774	25,774	3.090%	January 6, 2012	October 30, 2019	(914)	(388)
Swap	Interest Rate	Cash Flow	(a)	27,062	27,062	2.750%	December 21, 2011	September 30, 2017	(279)	(201)
				$328,610	$328,610					

(a) Hedging unsecured variable rate debt.

The Company measures its derivative instruments at fair value and records them in the balance sheet as either an asset or liability. As of June 30, 2016, all swaps are included in other liabilities on the Company’s consolidated balance sheet.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. The Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

10. BENEFICIARIES' EQUITY OF THE PARENT COMPANY

Earnings per Share (EPS)

The following tables detail the number of shares and net income used to calculate basic and diluted earnings per share (in thousands, except share and per share amounts; results may not add due to rounding):

	Three-month periods ended June 30,			
	2016		2015	
	Basic	Diluted	Basic	Diluted
Numerator				
Income (loss) from continuing operations	$(1,323)	$(1,323)	$3,058	$3,058
Net (income) loss from continuing operations attributable to non-controlling interests	22	22	(2)	(2)
Nonforfeitable dividends allocated to unvested restricted shareholders	(79)	(79)	(76)	(76)
Preferred share dividends	(1,725)	(1,725)	(1,725)	(1,725)
Net income (loss) attributable to common shareholders	$(3,105)	$(3,105)	$1,255	$1,255
Denominator				
Weighted-average shares outstanding	175,013,291	175,013,291	179,860,284	179,860,284
Contingent securities/Share based compensation	-	-	-	678,603
Weighted-average shares outstanding	175,013,291	175,013,291	179,860,284	180,538,887
Earnings per Common Share:				
Net income (loss) attributable to common shareholders	$(0.02)	$(0.02)	$0.01	$0.01

	Six-month periods ended June 30,			
	2016		2015	
	Basic	Diluted	Basic	Diluted
Numerator				
Income from continuing operations	$44,987	$44,987	$11,652	$11,652
Net income from continuing operations attributable to non-controlling interests	(367)	(367)	(60)	(60)
Nonforfeitable dividends allocated to unvested restricted shareholders	(184)	(184)	(177)	(177)
Preferred share dividends	(3,450)	(3,450)	(3,450)	(3,450)
Net income attributable to common shareholders	$40,986	$40,986	$7,965	$7,965
Denominator				
Weighted-average shares outstanding	174,901,118	174,901,118	179,712,428	179,712,428
Contingent securities/Share based compensation	-	922,852	-	886,837
Weighted-average shares outstanding	174,901,118	175,823,970	179,712,428	180,599,265
Earnings per Common Share:				
Net income attributable to common shareholders	$0.23	$0.23	$0.04	$0.04

Redeemable common limited partnership units totaling 1,479,799 at June 30, 2016 and 1,535,102 at June 30, 2015, were excluded from the diluted earnings per share computations because they are not dilutive.

Unvested restricted shares are considered participating securities which require the use of the two-class method for the computation of basic and diluted earnings per share. For the three- and six-month periods ended June 30, 2016 and 2015, earnings representing nonforfeitable dividends as noted in the table above were allocated to the unvested restricted shares issued to the Company's executives and other employees under the Company's shareholder-approved long-term incentive plan.

Common and Preferred Shares

On May 24, 2016, the Parent Company declared a distribution of $0.16 per common share, totaling $28.2 million, which was paid on July 20, 2016 to shareholders of record as of July 6, 2016. In addition, the Parent Company declared distributions on its Series E Preferred Shares to holders of record as of June 30, 2016. These shares are entitled to a preferential return of 6.90% per annum on the $25.00 per share liquidation preference. Distributions paid on July 15, 2016 to holders of Series E Preferred Shares totaled $1.7 million.

On November 5, 2013, the Parent Company commenced a continuous equity offering program (the "Offering Program"), under which it may sell, in at-the-market offerings, up to an aggregate amount of 16,000,000 common shares until November 5, 2016. The Parent Company may sell common shares in amounts and at times to be determined by the Parent Company. Actual sales will depend on a variety of factors to be determined by the Parent Company, including, among others, market conditions, the trading price of the Company's common shares and determinations by the Parent Company of the appropriate sources of funding. Sales agents engaged by the Parent Company under the Offering Program are entitled to receive as compensation an aggregate, of up to 2% of the gross sales price per share sold under the Offering Program. From inception of the Offering Program through June 30, 2016, the Parent Company had not sold any shares under the program, leaving 16,000,000 remaining shares available for sale.

Common Share Repurchases

The Parent Company maintains a share repurchase program under which the Board of Trustees has authorized the Parent Company to repurchase shares of its preferred and common stock with no expiration date. On July 22, 2015, the Parent Company's Board of Trustees authorized additional share repurchases of up to $100.0 million. Prior to the authorization 539,200 common shares were available for repurchase under the preexisting share repurchase program. The Company expects to fund the share repurchases with a combination of available cash balances and availability under our line of credit. As of June 30, 2016, 5,209,437 common shares have been repurchased and retired at an average purchase price of $12.90 per share and totaling $67.3 million. The timing and amounts of any purchases will depend on a variety of factors, including market conditions, regulatory requirements, share prices, capital availability and other factors as determined by our management team. The repurchase program does not require the purchase of any minimum number of shares and may be suspended or discontinued at any time without notice. There were no shares repurchased under the program during the six months ended June 30, 2016 or June 30, 2015.

Maryland law applicable to the Company does not contemplate treasury stock, and common shares repurchased under the program are accounted for as a reduction of common shares (at $0.01 par value per share) and a decrease to additional paid-in-capital.

11. PARTNERS' EQUITY OF THE OPERATING PARTNERSHIP

Earnings per Common Partnership Unit

The following tables detail the number of units and net income used to calculate basic and diluted earnings per common partnership unit (in thousands, except unit and per unit amounts; results may not add due to rounding):

	Three-month periods ended June 30,			
	2016		2015	
	Basic	Diluted	Basic	Diluted
Numerator				
Income (loss) from continuing operations	$(1,323)	$(1,323)	$3,058	$3,058
Nonforfeitable dividends allocated to unvested restricted unitholders	(79)	(79)	(76)	(76)

Preferred unit dividends	(1,725)	(1,725)	(1,725)	(1,725)
Net (income) loss attributable to non-controlling interests	(4)	(4)	5	5
Net income (loss) attributable to common unitholders	$(3,131)	$(3,131)	$1,262	$1,262
Denominator				
Weighted-average units outstanding	176,541,708	176,541,708	181,395,386	181,395,386
Contingent securities/Share based compensation	-	-	-	678,603
Total weighted-average units outstanding	176,541,708	176,541,708	181,395,386	182,073,989
Earnings per Common Partnership Unit:				
Net (loss) income attributable to common unitholders	$(0.02)	$(0.02)	$0.01	$0.01

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	Six-month periods ended June 30,			
	2016		2015	
	Basic	Diluted	Basic	Diluted
Numerator				
Income from continuing operations	$44,987	$44,987	$11,652	$11,652
Nonforfeitable dividends allocated to unvested restricted unitholders	(184)	(184)	(177)	(177)
Preferred unit dividends	(3,450)	(3,450)	(3,450)	(3,450)
Net (income) loss attributable to non-controlling interests	(6)	(6)	5	5
Net income attributable to common unitholders	$41,347	$41,347	$8,030	$8,030
Denominator				
Weighted-average units outstanding	176,432,877	176,432,877	181,247,530	181,247,530
Contingent securities/Share based compensation	-	922,853	-	886,837
Total weighted-average units outstanding	176,432,877	177,355,730	181,247,530	182,134,367
Earnings per Common Partnership Unit:				
Net income attributable to common unitholders	$0.23	$0.23	$0.04	$0.04

Unvested restricted units are considered participating securities which require the use of the two-class method for the computation of basic and diluted earnings per share. For the three and six- month periods ended June 30, 2016 and 2015, earnings representing nonforfeitable dividends as noted in the table above were allocated to the unvested restricted units issued to the Parent Company in connection with awards to the Parent Company's executives and other employees under the Parent Company's shareholder-approved long-term incentive plan.

Common Partnership Units and Preferred Mirror Units

On May 24, 2016, the Operating Partnership declared a distribution of $0.16 per common partnership unit, totaling $28.2 million, which was paid on July 20, 2016 to unitholders of record as of July 6, 2016. In addition, the Operating Partnership declared distributions on its Series E-Linked Preferred Mirror Units to holders of record as of June 30, 2016. These units are entitled to a preferential return of 6.90% per annum on the $25.00 per unit liquidation preference. Distributions paid on July 15, 2016 to holders of Series E-Linked Preferred Mirror Units totaled $1.7 million.

12. SEGMENT INFORMATION

During the year ended December 31, 2015, the Company managed its portfolio within seven segments: (1) Pennsylvania Suburbs, (2) Philadelphia Central Business District (CBD), (3) Metropolitan Washington, D.C., (4) New Jersey/Delaware, (5) Richmond, Virginia, (6) Austin, Texas and (7) California. As a result of the Och-Ziff Sale that occurred on February 4, 2016, the Company narrowed its segments to five segments located in: (1) Pennsylvania Suburbs, (2) Philadelphia Central Business District ("CBD"), (3) Metropolitan Washington, D.C. and (4) Austin, Texas. The Och-Ziff Sale disposed of the entire Richmond, Virginia segment. Subsequent to the Och-Ziff Sale, the segments previously defined as New Jersey/Delaware and California are now being managed as a consolidated segment entitled (5) "Other," as these geographies no longer provide a significant revenue contribution. The Pennsylvania Suburbs segment includes properties in Chester, Delaware, and Montgomery counties in the Philadelphia suburbs. The Philadelphia CBD segment includes properties located in the City of Philadelphia in Pennsylvania. The Metropolitan Washington, D.C. segment includes properties in the District of Columbia, Northern Virginia and southern Maryland.

The Austin, Texas segment includes properties in the City of Austin, Texas. The Other segment includes properties in Burlington and Camden counties in New Jersey, properties in New Castle County in the state of Delaware, and properties in the City of Oakland and City of Concord in California. The corporate group is responsible for cash and investment management, development of certain real estate properties during the construction period, and certain other general support functions. Land held for development and construction in progress are transferred to operating properties by region upon completion of the associated construction or project.

The following tables provide selected asset information and results of operations of the Company's reportable segments (in thousands):

Real estate investments, at cost:

	June 30, 2016	December 31, 2015
Philadelphia CBD (a)	$1,274,818	$ 1,157,667
Pennsylvania Suburbs	1,022,239	1,019,280
Metropolitan Washington, D.C. (b)	1,068,170	1,129,206
Austin, Texas (c)	147,157	164,518
Other (d), (e)	209,021	222,329
	$3,721,405	$ 3,693,000
Assets held for sale (f), (g)	17,622	794,588
Operating Properties	$3,739,027	$ 4,487,588
Corporate		
Construction-in-progress	$254,188	$ 268,983
Land held for development	$131,015	$ 130,479

(a) The increase primarily relates to the office component of the FMC Tower at Cira Centre South being placed into service during the three-month period ended June 30, 2016.

(b) The decrease primarily relates to the sale of Herndon Metro Plaza I & II. See Note 3, "Real Estate Investments," for further information. The sale is not classified as a significant disposition under the accounting guidance for discontinued operations.

(c) The decrease primarily relates to a building from the Broadmoor Austin portfolio being placed into redevelopment during the three-month period ended June 30, 2016.

(d) The decrease primarily relates to the office property at 1120 Executive Boulevard in Mount Laurel, New Jersey and Oakland Lot B in Oakland, California being classified as held for sale at June 30, 2016. See Note 3, "Real Estate Investments," for further information. These sales are not classified as significant dispositions under the accounting guidance for discontinued operations.

(e) As a result of the Och-Ziff Sale that occurred on February 4, 2016, the Company narrowed its segments to five segments located in: (1) Pennsylvania Suburbs, (2) Philadelphia Central Business District (“CBD”), (3) Metropolitan Washington, D.C. and (4) Austin, Texas. The Och-Ziff Sale disposed of the entire Richmond, Virginia segment. Subsequent to the Och-Ziff Sale, the segments previously defined as New Jersey/Delaware and California are now being managed as a consolidated segment entitled (5) “Other,” as these geographies no longer provide a significant revenue contribution. Accordingly, the chief operating decision maker revised the management structure, reallocated resources, and is assessing business operations of the five segments as of January 1, 2016.

(f) As of December 31, 2015, the office property located at 2970 Market Street in Philadelphia, Pennsylvania commonly known as 30th Street Main Post Office (“Cira Square”) was classified as held for sale on the consolidated balance sheets. The Company disposed of its interests in the property on February 5, 2016. See Note 3, "Real Estate Investments," for further information. The sale is not classified as a significant disposition under the accounting guidance for discontinued operations.

(g) As of December 31, 2015, the 58 properties associated with the series of related transactions with Och-Ziff Real Estate were classified as held for sale on the consolidated balance sheets. On February 4, 2016, the Company completed a series of transactions, resulting in the disposition of the properties. See Note 3, “Real Estate Investments,” for further information regarding the disposition. The sale is not classified as a significant disposition

under the accounting guidance for discontinued operations. Additionally, as of June 30, 2016, the Company categorized one office property located at 1120 Executive Boulevard in Mt. Laurel, New Jersey and one property located in Oakland, California known as Oakland Lot B as held for sale in accordance with applicable accounting standards for long lived assets. The sale is not classified as a significant disposition under the accounting guidance for discontinued operations.

Net operating income (in thousands):

	Three-month periods ended June 30, 2016			2015		
	Total revenue	Operating expenses (a)	Net operating income	Total revenue	Operating expenses (a)	Net operating income
Philadelphia CBD	$48,082	$(19,775)	$ 28,307	$52,420	$(19,448)	$ 32,972
Pennsylvania Suburbs	35,102	(12,580)	22,522	39,010	(12,856)	26,154
Metropolitan Washington, D.C.	25,291	(8,768)	16,523	26,953	(10,544)	16,409
Austin, Texas (b)	7,850	(2,911)	4,939	2,533	(1,498)	1,035
Other (c)	9,062	(5,074)	3,988	24,074	(11,407)	12,667
Corporate	1,794	(1,113)	681	658	(596)	62
Operating Properties	$127,181	$(50,221)	$ 76,960	$145,648	$(56,349)	$ 89,299

	Six-month periods ended June 30, 2016			2015		
	Total revenue	Operating expenses (a)	Net operating income	Total revenue	Operating expenses (a)	Net operating income
Philadelphia CBD	$97,752	$(39,031)	$58,721	$105,393	$(37,838)	$67,555
Pennsylvania Suburbs	72,208	(25,735)	46,473	78,900	(27,441)	51,459
Metropolitan Washington, D.C.	52,630	(19,667)	32,963	54,359	(22,404)	31,955
Austin, Texas (b)	16,397	(6,166)	10,231	3,467	(2,369)	1,098
Other (c)	21,802	(12,676)	9,126	51,853	(25,985)	25,868
Corporate	2,894	(1,721)	1,173	2,082	(1,010)	1,072
Operating Properties	$263,683	$(104,996)	$158,687	$296,054	$(117,047)	$179,007

(a) Includes property operating expense, real estate taxes and third party management expense.
(b) On June 22, 2015 the Company acquired the remaining 50.0% interest in Broadmoor Austin Associates. As such, the Company has seven wholly owned properties in its Austin, Texas business segment at June 30, 2016. In addition, net operating income for the three and six months ended June 30, 2016 and 2015 includes management fees and related expenses for services provided by the Company to the Austin Venture.
(c) See footnote (e) to the "Real estate investments, at cost" table above for further information regarding this segment.

Unconsolidated real estate ventures (in thousands):

	Investment in real estate ventures, at equity	Equity in income (loss) of real estate ventures
	As of	

	June 30, 2016	December 31, 2015	Three-month periods ended June 30, 2016	Three-month periods ended June 30, 2015	Six-month periods ended June 30, 2016	Six-month periods ended June 30, 2015
Philadelphia CBD (a)	$50,542	$ 44,089	$(475)	$(150)	$(20)	$(450)
Pennsylvania Suburbs	20,199	16,408	315	(17)	580	(22)
Metropolitan Washington, D.C.	120,656	118,422	(332)	(179)	(781)	(229)
MAP Venture (b)	23,513	-	(1,042)	-	(1,598)	-
Other (c)	1,570	1,657	327	362	488	495
Austin, Texas (d)	55,668	60,428	(459)	(889)	(738)	(536)
Total	$272,148	$ 241,004	$(1,666)	$(873)	$(2,069)	$(742)

(a) Net increase of investment of $6.5 million primary relates to the evo at Cira real estate venture. See Note 4, “Investment in Unconsolidated Real Estate Ventures,” for further information.
(b) The MAP Venture represents a joint venture formed between the Company and MAP Ground Lease Holdings LLC, an affiliate of Och-Ziff Capital Management Group, LLC, on February 4, 2016. See Note 4 “Investment in Unconsolidated Real Estate Ventures,” to our consolidated financial statements for further information. The MAP Venture’s business operations, including properties in Richmond, Virginia; Metropolitan Washington, D.C.; New Jersey/Delaware and Pennsylvania Suburbs, are centrally managed with the results reported to management of the Company on a consolidated basis. As a result, the investment in the MAP Venture is separately presented. All other unconsolidated real estate ventures are managed consistently with the Company’s regional segments.
(c) See footnote (e) to the “Real estate investments, at cost” table above for further information regarding this segment.
(d) Investment in real estate ventures does not include the $1.1 million negative investment balance in one real estate venture as of December 31, 2015, which is included in other liabilities. The Company disposed of its interest in this venture during the three-month period ended March 31, 2016. See Note 4, "Investment in Unconsolidated Real Estate Ventures," for further information. The decrease primarily relates to distributions from the DRA-Austin real estate venture.

Net operating income (“NOI”) is a non-GAAP financial measure defined as total revenue less property operating expenses, real estate taxes and third party management expenses. Segment NOI includes revenue, real estate taxes and property operating expenses directly related to operation and management of the properties owned and managed within the respective geographical region. Segment NOI excludes property level depreciation and amortization, revenue and expenses directly associated with third party real estate management services, expenses associated with corporate administrative support services, and inter-company eliminations. NOI also does not reflect general and administrative expenses, interest expenses, real estate impairment losses, depreciation and amortization costs, capital expenditures and leasing costs. Trends in development and construction activities that could materially impact the Company’s results from operations are also not reflected in NOI. All companies may not calculate NOI in the same manner. NOI is the measure that is used by the Company to evaluate the operating performance of its real estate assets by segment. The Company also believes that NOI provides useful information to investors regarding its financial condition and results of operations because it reflects only those income and expenses recorded at the property level. The Company believes that net income, as defined by GAAP, is the most appropriate earnings measure. The following is a reconciliation of consolidated NOI to consolidated net income (loss), as defined by GAAP (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Consolidated net operating income	$76,960	$89,299	$158,687	$179,007
Less:				
Interest expense	(19,829)	(27,895)	(43,520)	(56,071)
Interest expense - amortization of deferred financing costs	(644)	(1,288)	(1,418)	(2,367)
Interest expense - financing obligation	(242)	(324)	(523)	(610)
Depreciation and amortization	(46,907)	(50,930)	(95,780)	(102,041)
General and administrative expenses	(6,076)	(6,791)	(15,196)	(15,427)
Equity in loss of real estate ventures	(1,666)	(873)	(2,069)	(742)
Provision for impairment	(5,679)	(782)	(13,069)	(2,508)
Loss on early extinguishment of debt	-	-	(66,590)	-
Plus:				
Interest income	359	313	679	1,063
Net gain (loss) on disposition of real estate	(727)	1,571	114,729	10,590

Net gain from remeasurement of investment in a real estate venture	-	758	-	758
Net gain on Real Estate Venture transactions	3,128	-	9,057	-
Net income (loss)	$(1,323)	$3,058	$44,987	$11,652

13. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company is involved from time to time in litigation on various matters, including disputes with tenants and disputes arising out of agreements to purchase or sell properties. Given the nature of the Company's business activities, these lawsuits are considered routine to the conduct of its business. The result of any particular lawsuit cannot be predicted, because of the very nature of litigation, the litigation process and its adversarial nature, and the jury system. The Company will establish reserves for specific legal proceedings when it determines that the likelihood of an unfavorable outcome is probable and when the amount of loss is reasonably estimable. The

Company does not expect that the liabilities, if any, that may ultimately result from such legal actions will have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company.

Letters-of-Credit

Under certain mortgages, the Company has funded required leasing and capital reserve accounts for the benefit of the mortgage lenders with letters-of-credit. There is an associated $10.0 million letter of credit for a mortgage lender at June 30, 2016. Certain of the tenant rents at properties that secure these mortgage loans are deposited into the loan servicer's depository accounts, which are used to fund debt service, operating expenses, capital expenditures and the escrow and reserve accounts, as necessary. Any excess cash is included in cash and cash equivalents.

Environmental

As an owner of real estate, the Company is subject to various environmental laws of federal, state, and local governments. The Company's compliance with existing laws has not had a material adverse effect on its financial condition and results of operations, and the Company does not believe it will have a material adverse effect in the future. However, the Company cannot predict the impact of unforeseen environmental contingencies or new or changed laws or regulations on its current Properties or on properties that the Company may acquire.

Ground Rent

Future minimum rental payments by the Company under the terms of all non-cancelable ground leases of land on which properties in the Company's consolidated portfolio are situated are expensed on a straight-line basis regardless of when payments are due. The Company's ground leases have remaining lease terms ranging from 5 to 73 years. Minimum future rental payments on non-cancelable leases at June 30, 2016 are as follows (in thousands):

Year	Minimum Rent
2016 (six months remaining)	$ 666
2017	1,334
2018	1,334
2019	1,334
2020	1,334
Thereafter	67,632
Total	$ 73,634

The Company obtained ground tenancy rights related to three properties in Philadelphia, Pennsylvania, which provide for contingent rent participation by the lessor in certain capital transactions and net operating cash flows of the properties after certain returns are achieved by the Company. Such amounts, if any, will be reflected as contingent rent when incurred. The leases also provide for payment by the Company of certain operating costs relating to the land, primarily real estate taxes. The above schedule of future minimum rental payments does not include any contingent rent amounts or any reimbursed expenses. Reference is made in our Annual Report on Form 10-K for the year ended December 31, 2015 for further detail regarding commitments and contingencies.

Put Option

On May 4, 2015, the Company entered into a put agreement in the ordinary course of business that grants an unaffiliated third party the unilateral option to require the Company to purchase a property, at a predetermined price, until May 4, 2018. In addition to the $35.0 million purchase price, the Company would be responsible for transaction and closing costs. There can be no assurance that the counterparty will exercise the option.

Fair Value of Contingent Consideration

On April 2, 2015, the Company purchased 618 Market Street in Philadelphia, Pennsylvania. The allocated purchase price included contingent consideration of $2.0 million payable to the seller upon commencement of development. The liability was initially recorded at fair value of $1.6 million and will accrete through interest expense to $2.0 million over the expected period until development is commenced. The fair value of this contingent consideration was determined using a probability weighted discounted cash flow model. The significant inputs to the discounted cash flow model were the discount rate and weighted probability scenarios. As the inputs are

unobservable, the Company determined the inputs used to value this liability fall within Level 3 for fair value reporting. As of June 30, 2016, the liability had accreted to $1.7 million. As there were no significant changes to the inputs, the liability remains within Level 3 for fair value reporting.

Debt Guarantees

As of June 30, 2016, the Company had provided guarantees on behalf of certain real estate ventures, consisting of (i) a $3.2 million payment guarantee on the $56.0 million construction loan for TB-BDN Plymouth Apartments; (ii) a several cost overrun guaranty on the $88.9 million construction loan for the development project being undertaken by 1919 Market Street LP; and (iii) a $0.5 million payment guarantee on a loan provided to PJP VII. See Note 4, "Investment in Unconsolidated Real Estate Ventures," in the notes to the financial statements for more information.

Other Commitments or Contingencies

On December 3, 2015, the Company entered into an agreement as development manager to construct Subaru of America's ("Subaru") corporate headquarters in Camden, New Jersey. The agreement provides the Company with the ability to earn additional profit if total project costs are less than the not-to-exceed ("NTE") amount. The NTE amount, currently at $77.3 million, may be adjusted by change orders agreed upon by both Subaru and the Company. If construction costs are in excess of the NTE amount, the Company is obligated to pay such cost overruns. The terms of the guarantee do not provide a limitation on the costs the Company may be responsible for.

The Company invests in its properties and regularly incurs capital expenditures in the ordinary course to maintain the properties. The Company believes that such expenditures enhance its competitiveness. The Company also enters into construction, utility and service contracts in the ordinary course of business which may extend beyond one year. These contracts typically provide for cancellation with insignificant or no cancellation penalties.

Capital Expenditures

Amounts remaining to be incurred as of June 30, 2016 included the following:

- development and redevelopment obligations of $140.1 million; and
- capital expenditures for tenant improvements of $57.8 million.

14. SUBSEQUENT EVENTS

Garza Land Acquisition & Disposition

On July 1, 2016, the Company closed on the acquisition of 34.6 acres of land located in Austin, Texas known as the Garza Ranch for a gross purchase price of $20.6 million. The Company is currently under agreement to sell 9.5 acres (of the 34.6 acres) to two unaffiliated third parties.

1000 Chesterbrook Real Estate Venture

On July 14, 2016, the Company received a $5.1 million liquidating distribution from the 1000 Chesterbrook real estate venture. The cash distribution consists of proceeds from the sale of an office property on June 30, 2016 and was equal to the Company's investment basis in 1000 Chesterbrook as of June 30, 2016.

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

The Private Securities Litigation Reform Act of 1995 (the "1995 Act") provides a "safe harbor" for forward-looking statements. This Quarterly Report on Form 10-Q and other materials filed by us with the SEC (as well as information included in oral or other written statements made by us) contain statements that are forward-looking, including statements relating to business and real estate development activities, acquisitions, dispositions, future capital expenditures, financing sources, governmental regulation (including environmental regulation) and competition. We intend such forward-looking statements to be covered by the safe-harbor provisions of the 1995 Act. The words "anticipate," "believe," "estimate," "expect," "intend," "will," "should" and similar expressions, as they relate to us, are intend identify forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, we can give no assurance that our expectations will be achieved. As forward-looking statements, these statements involve important risks, uncertainties and other factors that could cause actual results to differ materially from the expected results and, accordingly, such results may differ from those expressed in any forward-looking statements made by us or on our behalf. Factors that could cause actual results to differ materially from our expectations are set forth in our Annual Report under the heading "Forward-Looking Statements" in our Annual Report on Form 10-K for the year ended December 31, 2015.

Given these uncertainties, and the other risks identified in the "Risk Factors " section of our Annual Report on Form 10-K for the year ended December 31, 2015, we caution readers not to place undue reliance on forward-looking statements. We assume no obligation to update or supplement forward-looking statements that become untrue because of subsequent events.

The discussion that follows is based primarily on our consolidated financial statements as of June 30, 2016 and December 31, 2015 and for the three- and six-month periods ended June 30, 2016 and 2015 and should be read along with the consolidated financial statements and related notes appearing elsewhere in this report. The ability to compare one period to another may be significantly affected by acquisitions completed, development properties placed in service and dispositions made during those periods.

OVERVIEW

As of June 30, 2016, we owned 120 properties, consisting of 102 office properties, nine mixed-use properties, one retail property (112 properties, collectively the "Core Properties"), four development properties, two redevelopment properties and two properties classified as held for sale (collectively, the "Properties") containing an aggregate of approximately 18.1 million net rentable square feet. In addition, as of June 30, 2016, we owned economic interests in 16 unconsolidated real estate ventures that contain approximately 7.9 million net rentable square feet (collectively, the "Real Estate Ventures"). As of June 30, 2016, we also owned 285 acres of undeveloped land and held options to purchase parcels containing approximately 50 additional acres of undeveloped land. As of June 30, 2016, the total potential development that these land parcels could support, under current zoning, entitlements or combination thereof, amounted to an estimated 6.3 million square feet. The Properties and the properties owned by the Real Estate Ventures are located in or near Philadelphia, Pennsylvania; Metropolitan Washington, D.C.; Southern New Jersey; Richmond, Virginia; Wilmington, Delaware; Austin, Texas and Oakland and Concord, California. In addition to managing properties that we own, as of June 30, 2016, we were managing approximately 11.2 million net rentable square feet of office and industrial properties for third parties and Real Estate Ventures.

Prior to the MAP Venture formation (see Note 4, "Investment in Unconsolidated Real Estate Ventures" to the consolidated financial statements), we held 20 industrial properties. Subsequent to the transactions, we hold six remaining industrial properties which have been classified as mixed-use.

We conduct our third-party real estate management services business primarily through wholly-owned management company subsidiaries. As of June 30, 2016, the management company subsidiaries were managing properties containing an aggregate of approximately 29.2 million net rentable square feet, of which approximately 18.0 million net rentable square feet related to Properties that we own and consolidate and approximately 11.2 million net rentable square feet related to properties owned by third parties and the Real Estate Ventures.

During the six months ended June 30, 2016, we were managing our portfolio within five markets; (1) Pennsylvania Suburbs, (2) Philadelphia Central Business District (“CBD”), (3) Metropolitan Washington, D.C. (4) Austin, Texas and (5) Other. Subsequent to the Och-Ziff Sale, the markets previously defined as New Jersey/Delaware and California are now being managed as a consolidated segment entitled “Other,” as these geographies no longer provide a significant revenue contribution. The Pennsylvania Suburbs segment includes properties in Chester, Delaware and Montgomery counties in the Philadelphia suburbs. The Philadelphia CBD segment includes properties located in the City of Philadelphia in Pennsylvania. The Metropolitan Washington, D.C. segment includes properties in Northern Virginia, Washington, D.C. and southern Maryland. The Austin, Texas segment includes properties in the City of Austin, Texas. The Other segment includes properties in Burlington and Camden counties in New Jersey, properties in New Castle county in the state of Delaware and properties in the City of Oakland and City of Concord in California. Our corporate group is responsible for cash

and investment management, development of certain real estate properties during the construction period, and certain other general support functions.

We generate cash and revenue from leases of space at our properties and, to a lesser extent, from the management of properties owned by third parties and from investments in the Real Estate Ventures. Factors that we evaluate when leasing space include rental rates, costs of tenant improvements, tenant creditworthiness, current and expected operating costs, the length of the lease term, vacancy levels and demand for office space. We also generate cash through sales of assets, including assets that we do not view as part of our Core Properties, either because of location or expected growth potential, and assets that are commanding premium prices from third party investors.

Our financial and operating performance is dependent upon the demand for office and other commercial space in our markets, our leasing results, our acquisition, disposition and development activity, our financing activity, our cash requirements and economic and market conditions, including prevailing interest rates.

Adverse changes in economic conditions could reduce the availability of financing and potentially increase borrowing costs; lead to declines in demands for office and other commercial space and result in rental rate declines; and adversely impact tenant credit quality.

Overall economic conditions, including but not limited to deteriorating financial and credit markets, could have a dampening effect on the fundamentals of our business, including increases in past due accounts, tenant defaults, lower occupancy and reduced effective rents. These conditions would negatively affect our future net income and cash flows and could have a material adverse effect on our financial condition. We believe that the quality of our assets and our strong balance sheet will enable us to raise debt capital, if necessary, in various forms and from different sources, including traditional term or secured loans from banks, pension funds and life insurance companies. However, there can be no assurance that we will be able to borrow funds on terms that are economically attractive or at all.

We continue to seek revenue growth throughout our portfolio by increasing occupancy and rental rates. Occupancy at our Core Properties at June 30, 2016 was 92.1% compared to 91.7% at June 30, 2015.

The table below summarizes selected operating and leasing statistics of our Core Properties for the three- and six-month periods ended June 30, 2016 and 2015:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016		2015		2016		2015	
Leasing Activity:								
Total net rentable square feet owned (1)	16,531,049		23,631,644		16,531,049		23,631,644	
Occupancy percentage (end of period) (1)	92.1	%	91.7	%	92.1	%	91.7	%
Average occupancy percentage (1)	92.4	%	90.9	%	92.4	%	90.8	%
Retention rate	73.0	%	78.2	%	63.2	%	74.0	%
New leases and expansions commenced (square feet)	204,923		383,047		493,493		564,519	
Leases renewed (square feet)	391,861		122,720		551,756		819,589	
Net absorption (square feet) (2)	(98,638	)	194,389		(215,370	)	(55,164	)
Percentage change in rental rates per square feet (3)								
New and expansion rental rates	16.2	%	3.6	%	19.7	%	5.3	%
Renewal rental rates	12.1	%	9.5	%	10.3	%	4.4	%
Combined rental rates	13.1	%	6.7	%	13.1	%	4.6	%

Capital Costs Committed (4)				
Leasing commissions (per square feet)	$2.77	$3.68	$3.19	$2.53
Tenant Improvements (per square feet)	$6.68	$13.32	$6.55	$7.90
Weighted average lease term (years)	5.2	7.8	5.3	6.7
Total capital per square foot per lease year	$1.59	$2.38	$1.79	$1.65

(1) Includes all Core Properties and does not include properties under development, redevelopment or held for sale or sold.
(2) Includes leasing related to completed developments and redevelopments, as well as sold properties.
(3) Rental rates include base rent plus reimbursement for operating expenses and real estate taxes.
(4) Calculated on a weighted average basis.

In seeking to increase revenue through our operating, financing and investment activities, we also seek to minimize operating risks, including (i) tenant rollover risk, (ii) tenant credit risk and (iii) development risk.

Tenant Rollover Risk

We are subject to the risk that tenant leases, upon expiration, will not be renewed, that space may not be relet, or that the terms of renewal or reletting (including the cost of renovations) may be less favorable to us than the current lease terms. Leases that accounted for approximately 1.4% of our aggregate final annualized base rents as of June 30, 2016 (representing approximately 1.8% of the net rentable square feet of the properties) are scheduled to expire without penalty in 2016. We maintain an active dialogue with our tenants in an effort to maximize lease renewals. For our Core Properties, the retention rate for the three- and six-month periods ended June 30, 2016 was 73.0% and 63.2% compared to a retention rate of 78.2% and 74.0% for the three- and six-month periods ended June 30, 2015. The lower relative retention primarily resulted from the natural expiration of a lease for a large tenant in our Pennsylvania Suburbs segment. Rental rates on leases expiring during 2016 do not deviate significantly from market renewal rates in the regions in which we operate. If we are unable to renew leases or relet space under expiring leases, at anticipated rental rates, or if tenants terminate their leases early, our financial position, net income and cash flow would be adversely impacted.

Tenant Credit Risk

In the event of a tenant default, we may experience delays in enforcing our rights as a landlord and may incur substantial costs in protecting our investment. Our management regularly evaluates our accounts receivable reserve policy in light of our tenant base and general and local economic conditions. Our accounts receivable allowance was $15.4 million or 9.1% of total receivables (including accrued rent receivables) as of June 30, 2016 compared to $16.2 million or 9.1% of total receivables (including accrued rent receivables) as of December 31, 2015.

If economic conditions deteriorate, we may experience increases in past due accounts, defaults, lower occupancy and reduced effective rents. This condition would negatively affect our future net income and cash flows and could have a material adverse effect on our financial condition.

Development Risk

Development projects are subject to a variety of risks, including construction delays, construction cost overruns, inability to obtain financing on favorable terms, inability to lease space at projected rates, inability to enter into construction, development and other agreements on favorable terms, and unexpected environmental and other hazards.

As of June 30, 2016, the following development properties and joint venture development projects remain under construction (in thousands, except square footage/acreage and number of buildings):

Wholly Owned Developments:

Construction Commencement Date	Expected Completion	Activity Type	Property/Portfolio Name	Location	Number of Buildings	Square Footage/ Units	Estimated Costs	Amount Funded
Q2 2014	(a)	Development	30th & Walnut Streets (FMC Tower at Cira Centre South)	Philadelphia, PA	1	625,000 / 268 units	$385,000	$300,900
Q2 2016	Q2 2017	Development	933 First Avenue	King Of Prussia, PA	1	111,000	29,200	4,000

TBD	Q1 2018	Development	Subaru National Training Center	Camden, NJ	1	83,000	29,300	9,800
		Total			3	819,000	$443,500	$314,700

(a) Approximately 45% of the office component was placed into service as of June 30, 2016 and we expect this component to be substantially complete during the three-month period ended September 30, 2016. The residential component is expected to be substantially complete during the three-month period ended December 31, 2016.

Real Estate Venture Developments:

Construction Commencement Date	Expected Completion	% Owned	Property/Portfolio Name	Location	Number of Buildings	Square Footage/Units	Our Share of Estimated Costs	Our Share of Amount Funded
Q4 2014	Q3 2016 (a)	50%	1919 Market Street (1919 Ventures)	Philadelphia, PA	1	321 units	$29,600	$29,600
		Total			1		$29,600	$29,600

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(a) The building was placed into service during the three-month period ended June 30, 2016 and, as of June 30, 2016, 45.2% of apartment units had been leased and 25.9% were occupied.

Reference is made to our Annual Report on Form 10-K for the year ended December 31, 2015 for project overviews, as well as risks associated with these development projects. See Item 2., "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources – Contractual Obligations" for contractual commitments relating to our ongoing development projects.

On May 29, 2015, we and an unaffiliated third party, JBG/DC Manager, LLC ("JBG"), formed 51 N 50 Patterson, Holdings, LLC Venture ("51 N Street") and 1250 First Street Office, LLC Venture ("1250 First Street") (collectively the "JBG Ventures"). The JBG Ventures expect to develop three buildings in Washington, D.C. For further information see Item 1., "Business - Developments" included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015. The above table does not include amounts related to these developments because the scope of development project has not been finalized as of June 30, 2016.

In addition, the above table does not include amounts related to the Schuylkill Yards Project. See Item 2.,"Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview – Development Risk," for further details.

Third Party Developments:

On May 9, 2016, we entered into a master development agreement (the "Development Agreement") with Drexel University, a Pennsylvania non-profit corporation ("Drexel"), that provides for our rights and obligations, as master developer, of a multi-phase, multi-component development on approximately 10.11 acres of land (the "Development Site") owned by Drexel and adjacent to Drexel's main campus in the University City section of Philadelphia. We refer to the overall development, including the Development Site and four adjacent acres comprising the master planned area as the "Schuylkill Yards Project."

The Schuylkill Yards Project is contemplated to be developed in six phases over an approximately 20-year period, excluding extension options, and to consist of an aggregate of approximately 5.1 million of floor area ratio, or FAR, of commercial, office, educational, research, residential, and other facilities, as well as accessory green spaces.

Prior to commencement of construction of the initial facility, we will oversee master planning, including obtaining required government and third party approvals, and completing confirmatory real estate due diligence. Thereafter, upon commencement, we or a qualifying designee will enter into a 99-year ground lease with Drexel for the portion of the Development Site where the initial facility will be constructed. We will enter into similar ground leases with Drexel covering additional portions of the Development Site in connection with our construction of additional facilities under subsequent phases of the Schuylkill Yards Project. We currently anticipate incurring approximately $10 million to $15 million in costs over the next 18 to 24 months, primarily to obtain zoning, land-use and other approvals and to develop park area associated with the Development Site.

We currently anticipate commencement of construction of the initial phase on or about the first half of 2018 and completion in or about the fourth quarter of 2019. We contemplate that the initial phase will consist of a mixed-use facility containing approximately 700,000 FAR, and with office space comprising at least 60% of the FAR at such facility. As of the date of this Form 10-Q, we have not finalized the scope of the development or entered into construction contracts.

Actual timing and scope of subsequent phases of development will depend on timing and scope of prior phases, third party approvals and design and development-related determinations by Drexel and us. Overall, approximately 50% of the FAR would consist of office, educational and research space, and the balance would consist of residential, retail,

hospitality and parking.

We intend to fund the costs to develop each development phase of the Schuylkill Yards Project through a combination of cash on hand, capital raised through one or more joint venture formations, and proceeds from the sale of other assets or debt financing, including project-specific mortgage financing. As of the date of this Form 10-Q, we have not entered into agreements with third parties for joint venture participation in the project.

The Development Agreement provides for rights, responsibilities and restrictions relating to all phases of the project, including but not limited to design and construction; leasing of space; involvement of third party participants; extension and termination rights; and protocols for reaching agreement on subjects customary for long-term collaborative development projects.

On December 3, 2015, we entered into an agreement as development manager to construct Subaru of America's corporate headquarters (the "Subaru Headquarters Development"), an office property containing five floors and approximately 250,000 square feet, on land owned by Subaru and located in Camden, New Jersey. In addition to development fees, the agreement provides us the ability to earn additional profit if total project costs are less than the not-to-exceed ("NTE") amount. The NTE amount, currently at $77.3 million, may

be adjusted by change orders agreed upon by both Subaru and us. If construction costs are in excess of the NTE amount, we are obligated to pay such cost overruns.

Land Holdings

As of June 30, 2016, we owned approximately 285 acres of undeveloped land, and held options to purchase approximately 50 additional acres of undeveloped land. As market conditions warrant, we will seek to opportunistically dispose of those parcels that we do not anticipate developing. For parcels of land that we ultimately develop, we will be subject to risks and costs associated with land development, including building moratoriums and the inability to obtain necessary zoning, land-use, building, occupancy and other required governmental approvals, construction cost increases or overruns and construction delays, and insufficient occupancy rates and rental rates. As of June 30, 2016, the total potential development that these land parcels could support, under current zoning and entitlements, amounted to 6.3 million square feet of development, inclusive of the options to purchase approximately 50 additional acres of undeveloped land.

Impairments and Disposal of Long-Lived Assets

We review our long-lived assets for impairment following the end of each quarter using cash flow projections and estimated fair values for each of the properties included within our impairment analysis. We update leasing and other assumptions regularly, paying particular attention to properties where there is an event or change in circumstances that indicates an impairment in value. For long-lived assets to be held and used, we analyze recoverability based on the estimated undiscounted future cash flows expected to be generated from the operations and eventual disposition of the assets over, in most cases, a 10-year hold period. If there is significant possibility that we will dispose of assets earlier, we analyze the recoverability using a probability weighted analysis of the undiscounted future cash flows expected to be generated from the operations and eventual disposition of each asset using various possible hold periods. If the recovery analysis indicates that the carrying value of the tested property is not recoverable, the property is written down to its fair value and an impairment loss is recognized. In such case, an impairment loss is recognized in the amount of the excess of the carrying amount of the asset over its fair value. If and when our plans change, we revise our recoverability analysis to use cash flows expected from operations and eventual disposition of each asset using hold periods that are consistent with our revised plans.

Estimated cash flows used in such analysis are based on our plans for the property and our views of market economic conditions. The estimates consider factors such as current and future rental rates, occupancies for the tested property and comparable properties, estimated operating and capital expenditures and recent sales data for comparable properties. Most of these factors are influenced by market data obtained from real estate leasing and brokerage firms and our direct experience with the properties and their markets.

We generally consider assets to be “held for sale” when the transaction has been approved by our Board of Trustees, or by officers vested with authority to approve the transaction and there are no known significant contingencies relating to the sale of the property within one year of the consideration date and the consummation of the transaction is otherwise considered probable. When a property is designated as held for sale, we stop depreciating the property and estimate the property’s fair value, net of selling costs. If the determination is made that the estimated fair value, net of selling costs, is less than the net book value of the property, an impairment loss is recognized equal to the difference and reduces the net book value of the property. For periods in which a property is classified as held for sale, we classify the assets of the property as held for sale on the consolidated balance sheet for such periods.

The relevant accounting guidance for impairments requires that qualifying assets and liabilities and the results of operations that have been sold, or otherwise qualify as “held for sale,” be presented as discontinued operations in all periods presented if the disposal represents a strategic shift that has, or will have, a major effect on our operations and

financial results. If deemed a discontinued operation, then the components of the property's net income that are reflected as discontinued operations include net gain (or loss) on disposition of real estate, operating results, depreciation and interest expense (if the property is subject to a secured loan).

During the three-month period ended June 30, 2016, we evaluated the recoverability of the carrying value of our properties under the undiscounted cash flow model. Based on the analysis, it was determined that due to the reduction in management's intended hold period of one property located in the Metropolitan, D.C. segment, we would not recover the carrying value of that property. Accordingly, we recorded an impairment charge on the property located in Metropolitan D.C. of $3.9 million at June 30, 2016, reducing the aggregate carrying value of the property from $37.4 million to its estimated fair value of $33.5 million.

On June 1, 2016, we entered into an agreement to sell an office property containing 95,183 square feet at 1120 Executive Boulevard located in Mount Laurel, New Jersey. As of June 30, 2016, we determined that the sale of the property was probable and classified this property as held for sale in accordance with applicable accounting standards for long lived assets. At such date, the carrying value of the property exceeded the fair value less the anticipated costs of sale. As a result, we recognized an impairment loss totaling approximately $1.8 million during the three-month period ended June 30, 2016. The fair value measurement was based on the pricing in the sales agreement.

During the three-month period ended March 31, 2016, we evaluated the recoverability of the carrying value of our properties utilizing an undiscounted cash flow model. Based on our evaluation, we determined that due to a reduction in the intended hold period for two of our

properties in the Metropolitan D.C. segment, we would not recover the carrying value of these properties. Accordingly, we recorded an impairment charge of $7.4 million at March 31, 2016 reducing the aggregate carrying values of these properties from $51.9 million to their estimated fair value of $44.5 million.

Equity Method Investments in Unconsolidated Real Estate Ventures

Under the equity method, investments in unconsolidated Real Estate Ventures are recorded initially at cost, as investments in Real Estate Ventures, and subsequently adjusted for equity in earnings, cash contributions, less distributions and impairments. For Real Estate Ventures that are constructing assets to commence planned principal operations, we capitalize interest expense using our weighted average interest rate and our investment balance as a basis. Planned principal operations commence when a property is available to lease and at that point in time we cease capitalizing interest to our investment basis.

On a quarterly basis, management assesses whether there are any indicators that the value of our investments in unconsolidated joint ventures may be impaired. An investment is impaired only if management's estimate of the value of the investment is less than the carrying value of the investment, and such decline in value is deemed to be other than temporary. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the investment over the fair value of the investment. Our estimates of value for each investment (particularly in commercial real estate joint ventures) are based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for space, competition for tenants, changes in market rental rates, and operating costs. These factors are difficult to predict and are subject to future events that may alter management's assumptions; accordingly, the values estimated by management in its impairment analyses may not be realized.

RECENT PROPERTY TRANSACTIONS

Dispositions

We sold the following office properties during the six-month period ended June 30, 2016 (dollars in thousands).

Disposition Date	Property/Portfolio Name	Location	Number of Properties	Rentable Square Feet	Sales Price	Net Proceeds on Sale	Gain (Loss) on Sale (a)		Occupancy % at Date of Sale
May 11, 2016	196/198 Van Buren Street (Herndon Metro Plaza I&II)	Herndon, VA	2	197,225	$44,500	$43,412	$(752	)(b)	92.9%
February 5, 2016	2970 Market Street (Cira Square)	Philadelphia, PA	1	862,692	354,000	350,150	115,828		100.0%
February 4, 2016	Och-Ziff Portfolio	Various (c)	58	3,924,783	398,100	353,971	(372	) (d)	91.4%
Total Dispositions			61	4,984,700	$796,600	$747,533	$114,704		

(a) Gain/(Loss) on Sale is net of closing and other transaction related costs.

(b) During the three-month period ended March 31, 2016, we recognized an impairment loss totaling approximately $7.4 million on the properties. The loss on sale represents additional closing costs recognized at settlement.

(c) See Exhibit 99.2 to the Company’s Current Report on Form 8-K filed on February 10, 2016 for a complete list of the 58 properties disposed of as a result of the transactions with Och-Ziff Capital Management. See Note 4, "Investment in Unconsolidated Real Estate Ventures," to the consolidated financial statements for further details of transactions.

(d) During the three-month period ended December 31, 2015, we recognized an impairment loss totaling approximately $45.4 million on the properties. The loss on sale represents additional closing costs recognized at settlement.

On January 15, 2016, we sold 120 acres located in Berks County Pennsylvania for a sales price of $0.9 million. The land was classified as held for sale as of December 31, 2015. The carrying value of the land exceeded the fair value less the anticipated costs of sale, therefore we recognized an impairment loss of $0.3 million during the three-month period ended December 31, 2015. There was no gain or loss recognized on the sale during 2016.

The disposal of the properties and land referenced above do not represent a strategic shift that has a major effect on our operations and financial results. Accordingly, the operating results of these properties remain classified within continuing operations for all periods presented.

Held for Sale

The following is a summary of properties classified as held for sale but which did not meet the criteria to be classified within discontinued operations at June 30, 2016 (in thousands):

	Held for Sale Properties Included in Continuing Operations June 30, 2016		
	1120 Executive Boulevard (a)	Oakland Lot B (b)	Total
ASSETS HELD FOR SALE			
Real estate investments:			
Operating properties	$ 13,256	$ 4,366	$ 17,622
Accumulated depreciation	(6,005)	(4)	(6,009)
Operating real estate investments, net	7,251	4,362	11,613
Construction-in-progress	675	-	675
Total real estate investments, net	7,926	4,362	12,288
Other assets	20	-	20
Total assets held for sale, net	$ 7,946	$ 4,362	$ 12,308
LIABILITIES HELD FOR SALE			
Other liabilities	$ 11	$ -	$ 11
Total liabilities held for sale	$ 11	$ -	$ 11

(a) On June 1, 2016, we entered into an agreement to sell an office property containing 95,183 square feet at 1120 Executive Boulevard located in Mount Laurel, New Jersey. As of June 30, 2016, we determined that the sale of the property was probable and classified this property as held for sale in accordance with applicable accounting standards for long lived assets. At such date, the carrying value of the property exceeded the fair value less the anticipated costs of sale. As a result, we recognized an impairment loss totaling approximately $1.8 million during the three-month period ended June 30, 2016. The fair value measurement was based on the pricing in the sales agreement.

(b) During the three-month period ended June 30, 2016, we determined that the sale of a property located in Oakland, California, known as Oakland Lot B, was probable and classified it as held for sale in accordance with applicable accounting standards for long lived assets. As the fair value less anticipated costs to sell exceeded the carrying value of the property no impairment loss was recorded.

933 First Avenue, King of Prussia, Pennsylvania

During the three-month period ended March 31, 2016, we entered into a lease and commenced construction on an 111,000 square foot building at 933 First Avenue in King of Prussia, Pennsylvania. The project is 100% preleased to a single tenant under a 12-year lease. Estimated construction costs total $29.2 million, with delivery anticipated in the second quarter of 2017. We expect to fund the project with available cash balances and/or our unsecured revolving credit facility.

1000 Chesterbrook

On June 30, 2016, the real estate venture known as 1000 Chesterbrook sold its office property comprised of 172,327 square feet, located in Berwyn, Pennsylvania for a sales price of $32.1 million. As of June 30, 2016, we own a 50%

interest in the 1000 Chesterbrook real estate venture. The proceeds to 1000 Chesterbrook, net of closing costs, pro-ration adjustments and $23.2 million of debt assumed by the buyer, were $9.8 million. We recorded $3.2 million for our proportionate share of the Venture's gain which is reflected in "Gain on Real Estate Venture transactions" on the accompanying statement of operations. The proceeds from the sale, along with $0.2 million of working capital, had not been distributed to us as of June 30, 2016 and, as a result, the carrying amount of our investment in 1000 Chesterbrook, which amounted to $5.1 million at the sale date remained on the balance sheet at June 30, 2016.

evo at Cira Centre South Venture

On January 25, 2013, we formed HSRE-Campus Crest IX Real Estate Venture ("evo at Cira"), a joint venture among us and two unaffiliated third parties: Campus Crest Properties, LLC ("Campus Crest") and HSRE-Campus Crest IXA, LLC ("HSRE"). From formation through March 2, 2016, each of us and Campus Crest owned a 30% interest in evo at Cira and HSRE owned a 40% interest. At formation, we contributed to evo at Cira our tenancy rights under a long-term ground lease of one acre of land located in the University City submarket of Philadelphia, Pennsylvania, together with associated development rights, at an agreed-upon value of $8.5 million. During the three-month period ended September 30, 2014, evo at Cira completed construction of a 33-story, 850-bed student housing tower on the contributed one acre ground lease. As of December 31, 2014, we and other members of evo at Cira had funded 100% of our and their respective shares of committed equity contributions and the real estate venture had fully drawn on its $97.8 million construction facility.

On March 2, 2016, we paid $12.8 million of cash and HSRE paid $6.6 million of cash to purchase Campus Crest's entire 30% interest in evo at Cira and, as a result, each of us and HSRE owns a 50% interest in evo at Cira. Subsequent to the transaction, our investment basis in evo at Cira is $28.3 million. In conjunction with the purchase, each of us and HSRE entered into an amended and restated operating agreement to govern our rights and obligations as sole members of evo at Cira.

On June 10, 2016, evo at Cira refinanced its $97.8 million construction loan maturing July 25, 2016 with a $117.0 million term loan bearing interest at LIBOR + 2.25% capped at a total maximum interest of 5.25% and maturing on October 31, 2019, with options to extend the term to June 30, 2021. evo at Cira received an advance of $105.0 million at closing. The additional $12.0 million capacity under the term loan may be funded if certain criterion relating to the operating performance of the student housing tower are met. The term loan is secured by a leasehold mortgage that holds absolute assignment of leases and rents. Subsequent to refinancing and the receipt of amounts in escrow under the construction loan, $6.3 million was distributed us.

MAP Venture

On February 4, 2016, we entered into a series of related transactions with affiliates of Och-Ziff Capital Management Group LLC ("Och-Ziff") that resulted in the disposition of 58 properties that contain an aggregate of 3,924,783 square feet for an aggregate purchase price of $398.1 million. The 58 properties are located in the Pennsylvania Suburbs, New Jersey/Delaware, Metropolitan Washington, D.C. and Richmond, Virginia segments. The related transactions involved: (i) the sale by us to MAP Fee Owner LLC, an affiliate of Och-Ziff (the "O-Z Land Purchaser"), of 100% of our fee interests in the land parcels (the "Land Parcels") underlying the 58 office properties, together with rights to be the lessor under long-term ground leases (the "Ground Leases") covering the Land Parcels; (ii) our formation of MAP Ground Lease Venture LLC (the "MAP Venture") with MAP Ground Lease Holdings LLC, an affiliate of Och-Ziff (the "O-Z Venture Partner"), (iii) our sale to the MAP Venture of the office buildings and related improvements (the "Buildings") situated on the Land Parcels; and (iv) our retention of a 50% non-controlling equity interest in the MAP Venture.

The MAP Venture leases the Land Parcels from O-Z Land Purchaser through a ground lease that extends through February, 2115. Annual payments by the MAP Venture, as tenant under the ground leases, initially total $11.9 million and increase 2.5% annually through November 2025.

At closing, the MAP Venture obtained a third party non-recourse debt financing of approximately $180.8 million secured by mortgages on the Buildings of the MAP Venture.

As a result of this transaction, we received $354.0 million in proceeds and maintain a 50% ownership interest in the MAP Venture, valued as of February 4, 2016 at $25.2 million, which holds the leasehold interest in the Buildings. The MAP Venture was formed as a limited liability company in which we have been designated as the Managing Member. We provide property management services at the Buildings on behalf of the MAP Venture for a market based management fee.

We are not required to fund the operating losses of the MAP Venture. Accordingly, we can only incur losses up to our investment basis in the joint venture.

We have determined that this transaction does not represent a significant shift in our operations that has a major impact on our economic performance and, as a result, the properties are not classified as discontinued operations on the consolidated financial statements.

Coppell Associates

On January 29, 2016, we sold our entire 50% ownership interest in an unconsolidated real estate venture known as Coppell Associates. The proceeds to us, net of closing costs and related debt payoff, were $4.6 million. The carrying amount of our investment in Coppell Associates amounted to a $1.1 million liability at the sale date, resulting in a $5.7 million gain on sale of our interest in the real estate venture. Our investment was in a liability position because, as a general partner, we were required to fund losses of Coppell Associates. The negative investment balance represented our share of unfunded cumulative losses incurred in excess of our investment basis as of the date of sale.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations discuss our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of these financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Certain accounting policies are considered to be critical accounting policies, as they require management to make assumptions about matters that are highly uncertain at the time the estimate is made and changes in accounting estimate are reasonably likely to occur from period to period. Management bases its estimates and assumptions on historical experience and current economic conditions.

Our Annual Report on Form 10-K for the year ended December 31, 2015 contains a discussion of our critical accounting policies. There have been no significant changes in our critical accounting policies since December 31, 2015. See also Note 2, "Basis of Presentation," in our unaudited consolidated financial statements for the three- and six-month periods ended June 30, 2016 and 2015, set forth herein.

RESULTS OF OPERATIONS

The following discussion is based on our consolidated financial statements for the three- and six-month periods ended June 30, 2016 and 2015. We believe that presentation of our consolidated financial information, without a breakdown by segment, will effectively present important information useful to our investors.

Net operating income ("NOI") as presented in the comparative analysis below is a non-GAAP financial measure defined as total revenue less property operating expenses, real estate taxes and third party management expenses. Property operating expenses that are included in determining NOI consist of costs that are necessary and allocable to our operating properties such as utilities, property-level salaries, repairs and maintenance, property insurance, management fees and bad debt expense. General and administrative expenses that are not reflected in NOI primarily consist of corporate-level salaries, amortization of share awards and professional fees that are incurred as part of corporate office management. NOI is a non-GAAP financial measure that we use internally to evaluate the operating performance of our real estate assets by segment, as presented in Note 12, "Segment Information," to our consolidated financial statements, and of our business as a whole. We believe NOI provides useful information to investors regarding our financial condition and results of operations because it reflects only those income and expense items that are incurred at the property level. While NOI is a relevant and widely used measure of operating performance of real estate investment trusts, it does not represent cash flow from operations or net income as defined by GAAP and should not be considered as an alternative to those measures in evaluating our liquidity or operating performance. NOI does not reflect interest expenses, real estate impairment losses, depreciation and amortization costs, capital expenditures and leasing costs. We believe that net income, as defined by GAAP, is the most appropriate earnings measure. See Note 12, "Segment Information," to the consolidated financial statements for a reconciliation of NOI to our consolidated net income (loss) as defined by GAAP.

Comparison of the Three-Month Periods Ended June 30, 2016 and June 30, 2015

The table below shows selected operating information for the "Same Store Property Portfolio" and the "Total Portfolio." The Same Store Property Portfolio consists of 105 properties containing an aggregate of approximately 15.5 million net rentable square feet, and represents properties that we owned for the entire three-month periods ended June 30, 2016 and 2015. The Total Portfolio includes the effects of other properties that were either placed into service, acquired or redeveloped after January 1, 2015 and disposed of prior to June 30, 2016 or classified as held for sale as of June 30, 2016. A property is excluded from our Same Store Property Portfolio and moved into the redevelopment column in the period that we determine that a redevelopment would be the best use of the asset, and when said asset is taken out of service or is undergoing re-entitlement for a future development strategy. This table also includes a reconciliation from the Same Store Property Portfolio to the Total Portfolio net income (i.e., all properties owned by us during the three-month periods ended June 30, 2016 and 2015) by providing information for the properties which were acquired, placed into service, under development or redevelopment and administrative/elimination information for the three-month periods ended June 30, 2016 and 2015 (in thousands).

The Total Portfolio net income presented in the table is equal to the net income of the Parent Company and the Operating Partnership.

Comparison of three months ended June 30, 2016 to the three months ended June 30, 2015

	Same Store Property Portfolio			Recently Completed/Acquired Properties (a)		Development/Redevelopment Properties (b)		Other/(Eliminations) (c)		Total Portfolio		
ollars and uare feet in ousands)	2016	2015	Increase/ (Decrease)	2016	2015	2016	2015	2016	2015	2016	2015	Increase (Decrea
venue:												
sh rents	$87,944	$86,805	$1,139	$3,999	$608	$1,973	$1,924	$701	$23,301	$94,617	$112,638	$(18,02
raight-line nts	5,775	4,325	1,450	457	95	1,483	(36)	(62)	760	7,653	5,144	2,509
ove/below arket rent nortization	699	918	(219)	971	113	(316)	288	-	26	1,354	1,345	9
tal rents	94,418	92,048	2,370	5,427	816	3,140	2,176	639	24,087	103,624	119,127	(15,50
nant mbursements	14,855	13,828	1,027	1,124	87	145	216	(187)	5,668	15,937	19,799	(3,862
rmination es	88	705	(617)	-	-	466	-	-	123	554	828	(274
ird party anagement es, labor mbursement d leasing	-	-	-	-	-	-	-	6,208	4,659	6,208	4,659	1,549
her	451	538	(87)	3	-	7	43	397	654	858	1,235	(377
tal revenue	109,812	107,119	2,693	6,554	903	3,758	2,435	7,057	35,191	127,181	145,648	(18,46
operty erating penses	33,575	32,871	(704)	682	164	1,121	971	701	8,698	36,079	42,704	6,625
al estate taxes	9,618	9,114	(504)	1,195	157	180	172	488	2,525	11,481	11,968	487
ird party anagement penses	-	-	-	-	-	-	-	2,661	1,677	2,661	1,677	(984
t operating come	66,619	65,134	1,485	4,677	582	2,457	1,292	3,207	22,291	76,960	89,299	(12,33
epreciation d nortization	38,135	38,617	482	5,761	902	2,540	1,008	471	10,403	46,907	50,930	4,023
eneral & ministrative penses	-	-	-	-	-	-	-	6,076	6,791	6,076	6,791	715
ovision for pairment (d)	-	-	-	-	-	-	-	5,679	782	5,679	782	(4,897
perating come	$28,484	$26,517	$1,967	$(1,084)	$(320)	$(83)	$284	$(9,019)	$4,315	$18,298	$30,796	$(12,49
	105	105		7		6						

umber of
operties