BRANDYWINE OPERATING PARTNERSHIP, L.P.
Form 10-Q
April 25, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2017

or

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	No
Brandywine Operating Partnership, L.P.	Yes	No

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	No
Brandywine Operating Partnership, L.P.	Yes	No

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

Brandywine Realty Trust:

Large accelerated filer	Accelerated filer	Non-accelerated filer
Smaller reporting company	Emerging growth company	

Brandywine Operating Partnership, L.P.:

Large accelerated filer	Accelerated filer	Non-accelerated filer
Smaller reporting company	Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 No

Brandywine Operating Partnership, L.P.   Yes   No

A total of 175,327,436 Common Shares of Beneficial Interest, par value $0.01 per share of Brandywine Realty Trust, were outstanding as of April 21, 2017.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended March 31, 2017 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 March 31, 2017, owned a 99.2% interest in the Operating Partnership. The remaining 0.8% 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	March 31, 2017 (unaudited)	December 31, 2016
Real estate investments:		
Operating properties	$3,702,204	$3,586,295
Accumulated depreciation	(864,196)	(852,476)
Operating real estate investments, net	2,838,008	2,733,819
Construction-in-progress	166,372	297,462
Land held for development	153,268	150,970
Total real estate investments, net	3,157,648	3,182,251
Assets held for sale, net	6,262	41,718
Cash and cash equivalents	234,654	193,919
Accounts receivable, net of allowance of $2,622 and $2,373 in 2017 and 2016, respectively	12,099	12,446
Accrued rent receivable, net of allowance of $13,703 and $13,743 in 2017 and 2016, respectively	152,819	149,624
Investment in Real Estate Ventures, equity method	264,941	281,331
Deferred costs, net	92,425	91,342
Intangible assets, net	64,222	72,478
Other assets	116,792	74,104
Total assets	$4,101,862	$4,099,213
LIABILITIES AND BENEFICIARIES' EQUITY		
Mortgage notes payable, net	$320,484	$321,549
Unsecured term loans, net	248,181	248,099
Unsecured senior notes, net	1,444,006	1,443,464
Accounts payable and accrued expenses	115,079	103,404
Distributions payable	30,047	30,032
Deferred income, gains and rent	30,592	31,620
Acquired lease intangibles, net	16,604	18,119
Liabilities related to assets held for sale	387	81
Other liabilities	16,916	19,408
Total liabilities	$2,222,296	$2,215,776
Commitments and contingencies (See Note 14)		
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 2017 and 2016	40	40
Common Shares of Brandywine Realty Trust's beneficial interest, $0.01 par value; shares authorized 400,000,000; 175,202,404 and 175,140,760 issued and outstanding in	1,752	1,752

2017 and 2016, respectively		
Additional paid-in-capital	3,262,459	3,258,870
Deferred compensation payable in common shares	14,244	13,684
Common shares in grantor trust, 936,939 in 2017, 899,457 in 2016	(14,244)	(13,684)
Cumulative earnings	560,422	539,319
Accumulated other comprehensive loss	(457)	(1,745)
Cumulative distributions	(1,961,739)	(1,931,892)
Total Brandywine Realty Trust's equity	1,862,477	1,866,344
Non-controlling interests	17,089	17,093
Total beneficiaries' equity	$ 1,879,566	$ 1,883,437
Total liabilities and beneficiaries' equity	$ 4,101,862	$ 4,099,213

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 March 31, 2017	2016
Revenue		
Rents	$103,332	$110,163
Tenant reimbursements	18,535	20,054
Termination fees	1,673	294
Third party management fees, labor reimbursement and leasing	6,485	5,235
Other	895	756
Total revenue	130,920	136,502
Operating expenses		
Property operating expenses	36,885	40,879
Real estate taxes	11,749	11,886
Third party management expenses	2,447	2,010
Depreciation and amortization	45,892	48,873
General and administrative expenses	9,425	9,120
Provision for impairment	2,730	7,390
Total operating expenses	109,128	120,158
Operating income	21,792	16,344
Other income (expense)		
Interest income	393	320
Interest expense	(21,437)	(23,691)
Interest expense - amortization of deferred financing costs	(634)	(774)
Interest expense - financing obligation	-	(281)
Equity in loss of Real Estate Ventures	(748)	(403)
Net gain on disposition of real estate	7,323	115,456
Net gain on Real Estate Venture transactions	14,582	5,929
Loss on early extinguishment of debt	-	(66,590)
Net income	21,271	46,310
Net income attributable to non-controlling interests	(169)	(389)
Net income attributable to Brandywine Realty Trust	21,102	45,921
Distribution to preferred shareholders	(1,725)	(1,725)
Nonforfeitable dividends allocated to unvested restricted shareholders	(99)	(105)
Net income attributable to Common Shareholders of Brandywine Realty Trust	$19,278	$44,091
Basic income per Common Share:		
Continuing operations	$0.11	$0.25
Diluted income per Common Share:		
Continuing operations	$0.11	$0.25
Basic weighted average shares outstanding	175,176,964	174,788,945
Diluted weighted average shares outstanding	176,201,872	175,471,413

Distributions declared per Common Share	$0.16	$0.15

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 March 31, 2017	2016
Net income	$21,271	$46,310
Comprehensive income:		
Unrealized gain (loss) on derivative financial instruments	1,014	(9,405)
Reclassification of realized losses on derivative financial instruments to operations, net (1)	286	246
Total comprehensive income (loss)	1,300	(9,159)
Comprehensive income	22,571	37,151
Comprehensive income attributable to non-controlling interest	(181)	(309)
Comprehensive income attributable to Brandywine Realty Trust	$22,390	$36,842

(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 three-month period ended March 31, 2017

(unaudited, in thousands, except number of shares)

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	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 Income (Loss)	Cumulative Distributions	Non-Co Interests
	4,000,000	$40	175,140,760	899,457	$1,752	$3,258,870	$13,684	$(13,684)	$539,319	$(1,745)	$(1,931,892)	$17,093
									21,102			169
										1,288		12
												29
e						(219)						
			6,752			110						
			56,669	39,870		3,769			1			
			(354)	(2,388)		(48)	560	(560)				
			(1,423)									
g						(23)						23
											(1,725)	

e												
5											(28,122)	(237
7	4,000,000	$40	175,202,404	936,939	$1,752	$3,262,459	$14,244	$(14,244)	$560,422	$(457)	$(1,961,739)	$17,089

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

BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENT OF BENEFICIARIES' EQUITY

For the three-month period ended March 31, 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
									45,921			389
										(9,079)		(80
												18
			210,116		2	3,296			34			
			(8,252)	101,321			1,237	(1,237)				
g						(10)						10
											(1,725)	
											(26,347)	(230
	4,000,000	$40	174,890,432	847,007	$1,749	$3,255,908	$13,155	$(13,155)	$545,041	$(14,271)	$(1,842,450)	$18,27

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

BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

	Three-month periods ended March 31, 2017	2016
Cash flows from operating activities:		
Net income	$21,271	$46,310
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	45,892	48,873
Amortization of deferred financing costs	634	774
Amortization of debt discount/(premium), net	362	382
Amortization of stock compensation costs	3,124	2,296
Straight-line rent income	(5,895)	(6,104)
Amortization of acquired above (below) market leases, net	(1,338)	(2,232)
Straight-line ground rent expense	22	22
Provision for doubtful accounts	707	215
Net gain on real estate venture transactions	(14,582)	(5,929)
Net gain on sale of interests in real estate	(7,323)	(115,456)
Loss on early extinguishment of debt	-	66,590
Provision for impairment	2,730	7,390
Real Estate Venture loss in excess of distributions	748	723
Deferred financing obligation	-	(253)
Changes in assets and liabilities:		
Accounts receivable	(917)	246
Other assets	(10,926)	(9,193)
Accounts payable and accrued expenses	9,089	6,296
Deferred income, gains and rent	(3,333)	(2,308)
Other liabilities	(6)	552
Net cash provided by operating activities	40,259	39,194
Cash flows from investing activities:		
Proceeds from the sale of properties	74,159	704,911
Proceeds from real estate venture sales	27,230	4,812
Capital expenditures for tenant improvements	(11,408)	(13,949)
Capital expenditures for redevelopments	(5,505)	(6,199)
Capital expenditures for developments	(21,156)	(54,405)
Advances for the purchase of tenant assets, net of repayments	997	360
Investment in unconsolidated Real Estate Ventures	(4,910)	(14,414)
Deposits for real estate	268	(2,275)
Escrowed cash	(32,009)	6,991
Cash distribution from unconsolidated Real Estate Ventures in excess of cumulative equity income	8,306	1,436
Leasing costs paid	(4,129)	(4,716)
Net cash provided by investing activities	31,843	622,552

Cash flows from financing activities:		
Repayments of mortgage notes payable	(1,215)	(267,172)
Proceeds from credit facility borrowings	-	195,000
Repayments of credit facility borrowings	-	(195,000)
Debt financing costs paid	-	(72)
Proceeds from the exercise of stock options	-	826
Shares used for employee taxes upon vesting of share awards	(129)	(289)
Partner contributions to consolidated real estate venture	29	18
Distributions paid to shareholders	(29,815)	(28,004)
Distributions to non-controlling interest	(237)	(230)
Net cash used in financing activities	(31,367)	(294,923)
Increase in cash and cash equivalents	40,735	366,823
Cash and cash equivalents at beginning of year	193,919	56,694
Cash and cash equivalents at end of period	$234,654	$423,517
Supplemental disclosure:		
Cash paid for interest, net of capitalized interest during the three months ended March 31, 2017 and 2016 of $1,709 and $3,671, respectively	$11,268	$13,656
Supplemental disclosure of non-cash activity:		
Dividends and distributions declared but not paid	30,047	28,278
Change in investment in real estate ventures as a result of dispositions	12,549	(1,130)
Change in investment in real estate ventures related to non-cash disposition of property	-	(25,165)
Change in capital expenditures financed through accounts payable at period end	1,273	4,235
Change in capital expenditures financed through retention payable at period end	(199)	753

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

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BRANDYWINE OPERATING PARTNERSHIP, L.P.

CONSOLIDATED BALANCE SHEETS

(in thousands, except unit and per unit information)

ASSETS	March 31, 2017 (unaudited)	December 31, 2016
Real estate investments:		
Operating properties	$3,702,204	$ 3,586,295
Accumulated depreciation	(864,196)	(852,476)
Operating real estate investments, net	2,838,008	2,733,819
Construction-in-progress	166,372	297,462
Land held for development	153,268	150,970
Total real estate investments, net	3,157,648	3,182,251
Assets held for sale, net	6,262	41,718
Cash and cash equivalents	234,654	193,919
Accounts receivable, net of allowance of $2,622 and $2,373 in 2017 and 2016, respectively	12,099	12,446
Accrued rent receivable, net of allowance of $13,703 and $13,743 in 2017 and 2016, respectively	152,819	149,624
Investment in Real Estate Ventures, equity method	264,941	281,331
Deferred costs, net	92,425	91,342
Intangible assets, net	64,222	72,478
Other assets	116,792	74,104
Total assets	$4,101,862	$ 4,099,213
LIABILITIES AND PARTNERS' EQUITY		
Mortgage notes payable, net	$320,484	$ 321,549
Unsecured term loans, net	248,181	248,099
Unsecured senior notes, net	1,444,006	1,443,464
Accounts payable and accrued expenses	115,079	103,404
Distributions payable	30,047	30,032
Deferred income, gains and rent	30,592	31,620
Acquired lease intangibles, net	16,604	18,119
Liabilities related to assets held for sale	387	81
Other liabilities	16,916	19,408
Total liabilities	$2,222,296	$ 2,215,776
Commitments and contingencies (See Note 14)		
Redeemable limited partnership units at redemption value; 1,479,799 issued and outstanding in 2017 and 2016	23,899	23,795
Brandywine Operating Partnership, L.P.'s equity:		
6.90% Series E-Linked Preferred Mirror Units; issued and outstanding- 4,000,000 in 2017 and 2016	96,850	96,850
General Partnership Capital; 175,202,404 and 175,140,760 units issued and outstanding in 2017 and 2016, respectively	1,757,455	1,762,764
Accumulated other comprehensive loss	(822)	(2,122)
Total Brandywine Operating Partnership, L.P.'s equity	1,853,483	1,857,492
Non-controlling interest - consolidated real estate ventures	2,184	2,150

Total partners' equity	$1,855,667	$ 1,859,642
Total liabilities and partners' equity	$4,101,862	$ 4,099,213

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 March 31, 2017	2016
Revenue		
Rents	$103,332	$110,163
Tenant reimbursements	18,535	20,054
Termination fees	1,673	294
Third party management fees, labor reimbursement and leasing	6,485	5,235
Other	895	756
Total revenue	130,920	136,502
Operating expenses		
Property operating expenses	36,885	40,879
Real estate taxes	11,749	11,886
Third party management expenses	2,447	2,010
Depreciation and amortization	45,892	48,873
General and administrative expenses	9,425	9,120
Provision for impairment	2,730	7,390
Total operating expenses	109,128	120,158
Operating income	21,792	16,344
Other income (expense)		
Interest income	393	320
Interest expense	(21,437)	(23,691)
Interest expense - amortization of deferred financing costs	(634)	(774)
Interest expense - financing obligation	-	(281)
Equity in loss of Real Estate Ventures	(748)	(403)
Net gain on disposition of real estate	7,323	115,456
Net gain on Real Estate Venture transactions	14,582	5,929
Loss on early extinguishment of debt	-	(66,590)
Net income	21,271	46,310
Net income from continuing operations attributable to non-controlling interests - consolidated real estate ventures	(5)	(2)
Net income attributable to Brandywine Operating Partnership	21,266	46,308
Distribution to preferred unitholders	(1,725)	(1,725)
Amounts allocated to unvested restricted unitholders	(99)	(105)
Net income attributable to Common Partnership Unitholders of Brandywine Operating Partnership, L.P.	$19,442	$44,478
Basic income per Common Partnership Unit:		
Continuing operations	$0.11	$0.25
Diluted income per Common Partnership Unit:		
Continuing operations	$0.11	$0.25

Basic weighted average common partnership units outstanding	176,656,763	176,324,047
Diluted weighted average common partnership units outstanding	177,681,671	177,006,515
Distributions declared per Common Partnership Unit	$0.16	$0.15

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

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BRANDYWINE OPERATING PARTNERSHIP, L.P.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, in thousands)

	Three-month periods ended March 31,	
	2017	2016
Net income	$21,271	$46,310
Comprehensive income:		
Unrealized gain (loss) on derivative financial instruments	1,014	(9,405)
Reclassification of realized losses on derivative financial instruments to operations, net (1)	286	246
Total comprehensive income (loss)	1,300	(9,159)
Comprehensive income	22,571	37,151
Comprehensive income attributable to non-controlling interest - consolidated real estate ventures	(5)	(2)
Comprehensive income attributable to Brandywine Operating Partnership, L.P.	$22,566	$37,149

(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 three-month period ended March 31, 2017

(unaudited, in thousands, except number of units)

	Series E-Linked Preferred Mirror Units		General Partner Capital				
	Units	Amount	Units	Amount	Accumulated Other Comprehensive Gain/(Loss)	Non-controlling Interest - Consolidated Real Estate Ventures	Total Partners' Equity
BALANCE, December 31, 2016	4,000,000	$96,850	175,140,760	$1,762,764	$ (2,122)	$ 2,150	$1,859,642
Net income				21,266		5	21,271
Other comprehensive income					1,300		1,300
Deferred compensation obligation			(354)	(48)			(48)
Issuance of LP Units				(219)			(219)
Issuance of partnership interest in consolidated real estate venture						29	29
Share Choice Plan issuance			(1,423)				-
Bonus share issuance			6,752	110			110
Share-based compensation activity			56,669	3,769			3,769
Adjustment of redeemable partnership units to liquidation value at period end				(340)			(340)
Distributions to Preferred Mirror Units				(1,725)			(1,725)
Distributions to general partnership unitholders ($0.16 per unit)				(28,122)			(28,122)
BALANCE, March 31, 2017	4,000,000	$96,850	175,202,404	$1,757,455	$ (822)	$ 2,184	$1,855,667

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

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BRANDYWINE OPERATING PARTNERSHIP, L.P.

CONSOLIDATED STATEMENT OF PARTNERS' EQUITY

For the three-month period ended March 31, 2016

(unaudited, in thousands, except number of units)

	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				46,308		2	46,310
Other comprehensive loss					(9,159)		(9,159)
Deferred compensation obligation			(8,252)				-
Issuance of partnership interest in consolidated real estate venture						18	18
Share-based compensation activity			210,116	3,332			3,332
Adjustment of redeemable partnership units to liquidation value at period end				(401)			(401)
Adjustment to non-controlling interest					1	(1)	-
Distributions to Preferred Mirror Units				(1,725)			(1,725)
Distributions to general partnership unitholders ($0.15 per unit)				(26,347)			(26,347)
BALANCE, March 31, 2016	4,000,000	$96,850	174,890,432	$1,857,859	$ (14,755)	$ 2,051	$1,942,005

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

BRANDYWINE OPERATING PARTNERSHIP L.P.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

	Three-month periods ended March 31, 2017	2016
Cash flows from operating activities:		
Net income	$21,271	$46,310
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	45,892	48,873
Amortization of deferred financing costs	634	774
Amortization of debt discount/(premium), net	362	382
Amortization of stock compensation costs	3,124	2,296
Straight-line rent income	(5,895)	(6,104)
Amortization of acquired above (below) market leases, net	(1,338)	(2,232)
Straight-line ground rent expense	22	22
Provision for doubtful accounts	707	215
Net gain on real estate venture transactions	(14,582)	(5,929)
Net gain on sale of interests in real estate	(7,323)	(115,456)
Loss on early extinguishment of debt	-	66,590
Provision for impairment	2,730	7,390
Real Estate Venture loss in excess of distributions	748	723
Deferred financing obligation	-	(253)
Changes in assets and liabilities:		
Accounts receivable	(917)	246
Other assets	(10,926)	(9,193)
Accounts payable and accrued expenses	9,089	6,296
Deferred income, gains and rent	(3,333)	(2,308)
Other liabilities	(6)	552
Net cash provided by operating activities	40,259	39,194
Cash flows from investing activities:		
Proceeds from the sale of properties	74,159	704,911
Proceeds from real estate venture sales	27,230	4,812
Capital expenditures for tenant improvements	(11,408)	(13,949)
Capital expenditures for redevelopments	(5,505)	(6,199)
Capital expenditures for developments	(21,156)	(54,405)
Advances for the purchase of tenant assets, net of repayments	997	360
Investment in unconsolidated Real Estate Ventures	(4,910)	(14,414)
Deposits for real estate	268	(2,275)
Escrowed cash	(32,009)	6,991
Cash distribution from unconsolidated Real Estate Ventures in excess of cumulative equity income	8,306	1,436
Leasing costs paid	(4,129)	(4,716)
Net cash provided by investing activities	31,843	622,552

Cash flows from financing activities:		
Repayments of mortgage notes payable	(1,215)	(267,172)
Proceeds from credit facility borrowings	-	195,000
Repayments of credit facility borrowings	-	(195,000)
Debt financing costs paid	-	(72)
Proceeds from the exercise of stock options	-	826
Shares used for employee taxes upon vesting of share awards	(129)	(289)
Partner contributions to consolidated real estate venture	29	18
Distributions paid to preferred and common partnership units	(30,052)	(28,234)
Net cash used in financing activities	(31,367)	(294,923)
Increase in cash and cash equivalents	40,735	366,823
Cash and cash equivalents at beginning of year	193,919	56,694
Cash and cash equivalents at end of period	$234,654	$423,517
Supplemental disclosure:		
Cash paid for interest, net of capitalized interest during the three months ended March 31, 2017 and 2016 of $1,709 and $3,671, respectively	$11,268	$13,656
Supplemental disclosure of non-cash activity:		
Dividends and distributions declared but not paid	30,047	28,278
Change in investment in real estate ventures as a result of dispositions	12,549	(1,130)
Change in investment in real estate ventures related to non-cash disposition of property	-	(25,165)
Change in capital expenditures financed through accounts payable at period end	1,273	4,235
Change in capital expenditures financed through retention payable at period end	(199)	753

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

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

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017

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, residential, 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 March 31, 2017, owned a 99.2% 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 March 31, 2017, the Company owned 104 properties that contain an aggregate of approximately 16.5 million net rentable square feet and consist of 90 office properties, six mixed-use properties, one retail property (97 properties, collectively the "Core Properties"), three development properties, three redevelopment properties and one property classified as held for sale (collectively, the "Properties"). In addition, as of March 31, 2017, the Company owned economic interests in 13 unconsolidated real estate ventures (collectively, the "Real Estate Ventures"), seven of which own properties that contain an aggregate of approximately 8.0 million net rentable square feet of office space; two of which own 4.3 acres of undeveloped parcels of land; two of which own 1.4 acres of land under active development and two of which own residential towers that contain 345 and 321 apartment units, respectively. As of March 31, 2017, the Company also owned 312 acres of undeveloped land and held options to purchase approximately 60 additional acres of undeveloped land. As of March 31, 2017, the total potential development that these land parcels could support, including the parcels under option, under current zoning and entitlements, amounted to an estimated 12.2 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 and Austin, Texas. In addition to managing properties owned by the Company, as of March 31, 2017, the Company was managing approximately 10.2 million net rentable square feet of office and industrial properties for third parties and Real Estate Ventures.

The Company conducts its third-party real estate management services business primarily through wholly-owned management company subsidiaries. As of March 31, 2017, the management company subsidiaries were managing properties containing an aggregate of approximately 26.7 million net rentable square feet, of which approximately 16.5 million net rentable square feet related to Properties owned by the Company and approximately 10.2 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 March 31, 2017, the results of its operations for the three-month periods ended March 31, 2017 and 2016 and its cash flows for the three-month periods ended March 31, 2017 and 2016 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 2016 Annual Report on Form 10-K filed with the SEC on March 1, 2017.

The Company's Annual Report on Form 10-K for the year ended December 31, 2016 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, 2016. Management discusses our significant accounting policies and management’s judgments and estimates with the Company's Audit Committee.

Reclassifications

During the first quarter of 2017, the Company adopted ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”), which requires the Company to reclassify employer tax payments on account of employee tax withholdings on share-based awards from operating activities to financing activities. Prior to the issuance of ASU 2016-09, there was no guidance on the classification of cash paid by an employer to the taxing authorities when directly withholding shares for tax withholding purposes. As a result of the adoption, a $0.3 million cash outflow has been reclassified in the March 31, 2016 consolidated statements of cash flows from operating activities to financing activities. There was no other impact from the adoption of this guidance.

During the quarter ended December 31, 2016, the Company early adopted ASU 2016-15, “Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”), which clarifies that debt prepayment costs should be presented as financing activities in the statement of cash flows. As a result of the adoption, $53.4 million was reclassified in the consolidated statements of cash flows from the operating activities section to the financing activities section of the consolidated statements of cash flows, within the “Repayment of mortgage notes payable” caption, for the three-months period ended March 31, 2016. There was no other impact from the adoption of this guidance.

Recent Accounting Pronouncements

On February 22, 2017, the FASB issued ASU No. 2017-05 (“ASU 2017-05) to provide guidance for recognizing gains and losses from the transfer of nonfinancial assets and in-substance non-financial assets in contracts with non-customers, unless other specific guidance applies. The standard requires a company to derecognize nonfinancial assets once it transfers control of a distinct nonfinancial asset or distinct in substance nonfinancial asset. Additionally, when a company transfers its controlling interest in a nonfinancial asset, but retains a noncontrolling ownership interest, the company is required to measure any non-controlling interest it receives or retains at fair value. The guidance requires companies to recognize a full gain or loss on the transaction. As a result of the new guidance, the guidance specific to real estate sales in ASC 360-20 will be eliminated. As such, sales and partial sales of real estate assets will now be subject to the same derecognition model as all other nonfinancial assets. The guidance is effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. The effective date of this guidance coincides with revenue recognition guidance. The Company is in the process of evaluating the impact of this new guidance and on its consolidated financial statements. The Company expects to utilize the modified retrospective approach.

On January 5, 2017, the FASB issued ASU No. 2017-01 (“ASU 2017-01”) to amend the guidance for determining whether a transaction involves the purchase or disposal of a business or an asset. The amendments clarify that when substantially all of the fair value of the gross assets acquired or disposed of is concentrated in a single identifiable asset or a group of similar assets, the set of assets and activities is not a business. ASU 2017-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years and early adoption is permitted for transactions which have not been previously reported in financial statements that have been issued. The Company adopted the guidance on the issuance date effective January 2017. The Company expects that most of its real estate acquisitions will be considered asset acquisitions under the new guidance and that transaction costs will be capitalized to the investment basis which is then subject to a purchase price allocation based on relative fair value.

3. REAL ESTATE INVESTMENTS

As of March 31, 2017 and December 31, 2016, the gross carrying value of the Properties was as follows (in thousands):

	March 31, 2017	December 31, 2016
Land	$462,014	$ 469,522
Building and improvements	2,801,495	2,683,087

Tenant improvements	438,695	433,686
Operating properties	3,702,204	3,586,295
Assets held for sale - real estate investments (a)	5,576	73,591
Total	$3,707,780	$ 3,659,886

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(a) Real estate investments related to assets held for sale above represents gross real estate assets and does not include accumulated depreciation or other assets on the balance sheet of the property held for sale. See “Held for Sale” below in this Note 3.

Dispositions

The Company sold the following eight office properties and one mixed-use property during the three-month period ended March 31, 2017 (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)	
March 30, 2017	200, 210 & 220 Lake Drive East (Woodland Falls)	Cherry Hill, NJ	3	215,465	$ 19,000	$ 17,771	$ (249)	(b)
March 15, 2017	Philadelphia Marine Center (Marine Piers)	Philadelphia, PA	1	181,900	21,400	11,182	6,498	(c)
March 13, 2017	11700, 11710, 11720 & 11740 Beltsville Drive (Calverton)	Beltsville, MD	3	313,810	9,000	8,354	-	(d)
February 2, 2017	1200 & 1220 Concord Avenue (Concord Airport Plaza)	Concord, CA	2	350,256	33,100	32,010	551	(e)
Total Dispositions			9	1,061,431	$ 82,500	$ 69,317	$ 6,800	

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

(b) During the fourth quarter of 2016, the Company recognized a $7.3 million impairment related to these properties.

(c) On March 15, 2017, the Company sold its sublease interest in the Piers at Penn’s Landing (the “Marine Piers”), which includes leasehold improvements containing 181,900 net rentable square feet, and a marina, located in Philadelphia, Pennsylvania for a sales price of $21.4 million, which will be paid in two installments. On the closing date, the buyer paid $12.0 million in cash. On the second purchase price installment date, the buyer will pay $9.4 million. The second purchase price installment is due on (a) January 31, 2020, in the event that the tenant at the Marine Piers does not exercise its existing option to extend the term of the sublease or (b) January 15, 2024, in the event that the tenant does exercise its current extension option to extend the term of the sublease. In accordance with ASC 360-20, Real Estate Sales, the Company determined that it is appropriate to account for the sales transaction under the cost recovery method. The Company received cash proceeds of $11.2 million, after closing costs and prorations, and the net book value of the Marine Piers was $4.7 million, resulting in a gain on sale of $6.5 million. The remaining gain on sale of $9.4 million will be recognized on the second purchase price installment date. The Marine Piers was classified as mixed-use within our property count.

(d) During the fourth quarter of 2016, the Company recognized a $3.0 million impairment related to these properties. During the first quarter of 2017, there was a price reduction of $1.7 million under the agreement of sale and an additional impairment of $1.7 million was recognized.

(e) This sale is designated as a like-kind exchange under Section 1031 of the Internal Revenue Code (“IRC”) and, as such, the proceeds, totaling $32.0 million after closing costs and prorations, were deposited with a Qualified Intermediary, as defined under the IRC. The proceeds received at closing were recorded as “Other assets” in the Company’s consolidated balance sheet as of March 31, 2017. During the fourth quarter of 2016, the Company recognized a $11.5 million impairment related to these properties.

In addition to the amounts in the table above, the Company recorded $0.5 million gain during the first quarter of 2017 from the receipt of additional cash from the disposition of Cira Square during 2016. For further information relating to this sale, see Note 3, “Real Estate Investments,” 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, 2016.

The Company sold the following land parcels during the three-month period ended March 31, 2017 (dollars in thousands):

Disposition Date	Property/Portfolio Name	Location	Number of Parcels	Acres	Sales Price	Net Proceeds on Sale	Gain on Sale	
February 15, 2017	Gateway Land C	Richmond, VA	1	4.8	$1,100	$ 1,043	$ -	(a)
January 30, 2017	Garza Ranch	Austin, TX	1	1.7	3,500	3,277	-	(b)
Total Dispositions			2	6.5	$4,600	$ 4,320	$ -	

(a) During the fourth quarter of 2016, the Company recognized a nominal impairment related to this land parcel.

(b) The Company has a continuing involvement through a completion guaranty, which requires the Company as developer to complete certain infrastructure improvements on behalf of the buyers of the land parcels. The cash received at settlement was recorded as “Deferred income, gains and rent” on the Company’s consolidated balance sheet and the Company will recognize the

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sale once the infrastructure improvements are complete. See Item 2., “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Contractual Obligations” for further discussion of the infrastructure improvements.

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. 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 one property classified as held for sale but which did not meet the criteria to be classified within discontinued operations at March 31, 2017 (in thousands):

	Held for Sale Property Included in Continuing Operations March 31, 2017 Other Segment - Retail
ASSETS HELD FOR SALE	
Real estate investments:	
Operating properties	$ 5,576
Accumulated depreciation	(79)
Operating real estate investments, net	5,497
Land held for development	-
Total real estate investments, net	5,497
Other assets	765
Total assets held for sale, net	$ 6,262
LIABILITIES HELD FOR SALE	
Other liabilities	$ 387
Total liabilities held for sale	$ 387

As the fair value less anticipated costs to sell exceeded the carrying value for the property included in the above table, no provision for impairment was recorded. The fair value measurement is based on pricing in the purchase and sale agreement for the property. As the pricing in the purchase and sale agreement is unobservable, the Company determined that the input utilized to determine fair value for the property falls within Level 3 in accordance with the fair value hierarchy established by Accounting Standards Codification (ASC) Topic 820, “Fair Value Measurements and Disclosures”.

The sale of the held for sale property does not represent a strategic shift that has a major effect on the Company's operations and financial results. As a result, the operating results of the property remains classified within continuing operations for all periods presented.

Held for Use Impairment

As of March 31, 2017, the Company evaluated the recoverability of the carrying value of its properties that triggered assessment under the undiscounted cash flow model. Based on the Company's evaluation, it was determined that due to the reduction in the Company's intended hold period of four properties located in the Other segment, the Company would not recover the carrying values of these properties. Accordingly, the Company recorded impairment charges on these properties of $1.0 million at March 31, 2017, reducing the aggregate carrying values of the properties from $10.2 million to their estimated fair value of $9.2 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 9.00% and 9.25%, respectively. The results were comparable to indicative pricing in the market. The assumptions used to determine fair value under the income approach are Level 3 inputs in accordance with the fair value hierarchy established by Accounting Standards Codification (ASC) Topic 820, "Fair Value Measurements and Disclosures."

4. INVESTMENT IN UNCONSOLIDATED REAL ESTATE VENTURES

As of March 31, 2017, the Company held ownership interests in 13 unconsolidated Real Estate Ventures for an aggregate investment balance of $264.9 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 March 31, 2017, seven of the real estate ventures owned properties that contain an aggregate of approximately 8.0 million net rentable square feet of office space; two real estate ventures owned 4.3 acres of undeveloped parcels of land; two real estate ventures owned 1.4 acres of land under active development and two real estate ventures owned residential towers that contain 345 and 321 apartment units, respectively.

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 $1.5 million in each of the three-month periods ended March 31, 2017 and 2016. The Company has outstanding accounts receivable balances from its Real Estate Ventures of $1.6 million and $1.4 million as of March 31, 2017 and December 31, 2016, 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 in which the Company held interests as of March 31, 2017 and December 31, 2016 (in thousands):

	March 31, 2017	December 31, 2016
Net property	$1,405,986	$ 1,483,067
Other assets	210,032	231,972
Other liabilities	107,161	129,486
Debt, net	946,891	989,738
Equity	561,966	595,815
Company's share of equity (Company's basis) (a)	$264,941	$ 281,331

(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.

The following is a summary of results of operations of the Real Estate Ventures in which the Company held interests during the three-month periods ended March 31, 2017 and 2016 (in thousands):

	Three-month periods ended March 31,	
	2017	2016
Revenue	$54,279	$46,525
Operating expenses	(25,166)	(26,668)
Interest expense, net	(10,830)	(8,989)
Depreciation and amortization	(20,761)	(20,160)
Net loss (a)	$(2,478)	$(9,292)
Equity in loss of Real Estate Ventures	$(748)	$(403)

(a) The three-month period ended March 31, 2016 amount includes $6.4 million of acquisition deal costs related to the formation of the MAP Venture during the three-month period ended March 31, 2016.

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The Parc at Plymouth Meeting Venture

On January 31, 2017, the Company sold its 50% interest in TB-BDN Plymouth Apartments, L.P., a 50/50 real estate venture with Toll Brothers, at a gross sales value of $100.5 million, of which the Company was allocated 50% for its interest. The venture developed and operates a 398-unit multi-family complex in Plymouth Meeting, Pennsylvania encumbered by a $54.0 million construction loan. The construction loan was repaid commensurate with the sale of the Company’s 50% interest. As a result, the Company is no longer subject to a $3.2 million payment guarantee on the construction loan. The cash proceeds, after the payment of the Company’s share of the debt and closing costs, were $27.2 million. The carrying amount of the Company’s investment at the time of sale was $12.6 million, resulting in a $14.6 million gain on sale of interest in the real estate venture.

Guarantees

As of March 31, 2017, the Company’s unconsolidated real estate ventures had aggregate indebtedness to third parties of $953.8 million. These loans are generally mortgage or construction loans, most of which are non-recourse to the Company. As of March 31, 2017, the loans for which there is recourse to the Company consists of the following: (i) a $55.4 million payment guaranty on the term loan for evo at Cira; (ii) a joint and 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 $0.4 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, included their indebtedness, 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, 2016.

5. INTANGIBLE ASSETS AND LIABILITIES

As of March 31, 2017 and December 31, 2016, the Company’s intangible assets/liabilities were comprised of the following (in thousands):

	March 31, 2017		
	Total Cost	Accumulated Amortization	Intangible Assets, net
Intangible assets, net:			
In-place lease value	$114,196	$ (54,834)	$ 59,362
Tenant relationship value	13,036	(10,378)	2,658
Above market leases acquired	4,703	(2,501)	2,202
Total intangible assets, net	$131,935	$ (67,713)	$ 64,222
Acquired lease intangibles, net:			
Below market leases acquired	$30,683	$ (14,079)	$ 16,604

December 31, 2016

	Total Cost	Accumulated Amortization	Intangible Assets, net
Intangible assets, net:			
In-place lease value	$142,889	$ (75,696)	$ 67,193
Tenant relationship value	13,074	(10,167)	2,907
Above market leases acquired	4,718	(2,340)	2,378
Total intangible assets, net	$160,681	$ (88,203)	$ 72,478
Acquired lease intangibles, net:			
Below market leases acquired	$37,579	$ (19,460)	$ 18,119

As of March 31, 2017, the Company's annual amortization for its intangible assets/liabilities, assuming no prospective early lease terminations, are as follows (dollars in thousands):

	Assets	Liabilities
2017 (nine months remaining)	$11,409	$ 1,809
2018	11,754	2,196
2019	10,536	1,885
2020	8,457	1,337
2021	5,971	807
Thereafter	16,095	8,570
Total	$64,222	$ 16,604

6. DEBT OBLIGATIONS

The following table sets forth information regarding the Company's consolidated debt obligations outstanding at March 31, 2017 and December 31, 2016 (in thousands):

	March 31, 2017	December 31, 2016	Effective Interest Rate			Maturity Date
MORTGAGE DEBT:						
Two Logan Square	$85,625	$ 86,012	3.98	%		May 2020
One Commerce Square	126,198	127,026	3.64	%	(a)	Apr 2023
Two Commerce Square	112,000	112,000	4.51	%	(b)	Apr 2023
Principal balance outstanding	323,823	325,038				
Plus: fair market value premium (discount), net	(2,652)	(2,761)				
Less: deferred financing costs	(687)	(728)				
Mortgage indebtedness	$320,484	$ 321,549				
UNSECURED DEBT						
Seven-Year Term Loan - Swapped to fixed	$250,000	$ 250,000	3.72	%		Oct 2022
$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	1,703,610
Plus: original issue premium (discount), net	(4,424)	(4,678)
Less: deferred financing costs	(6,999)	(7,369)
Total unsecured indebtedness	$1,692,187	$ 1,691,563
Total Debt Obligations	$2,012,671	$ 2,013,112

(a) This loan was assumed upon acquisition of the related properties on December 19, 2013. On December 29, 2015, the Company refinanced the debt increasing the principal balance to $130.0 million and extended the term of the scheduled maturity from January 6, 2016 to April 5, 2023. The effective interest rate as of December 31, 2015 was 3.64%. A default under this loan will also constitute a default under the loan outstanding on Two Commerce Square. This loan is also secured by a lien on Two Commerce Square.

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(b) This loan was assumed upon acquisition of the related property 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. This loan is also secured by a lien on One Commerce Square.

As of March 31, 2017 and December 31, 2016, the Company's weighted-average effective interest rates on its mortgage notes payable were both 4.03%. As of March 31, 2017 and December 31, 2016, the net carrying value of the Company's Properties that are encumbered by mortgage indebtedness was $323.8 million and $325.0 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 and during either of the three-month periods ended March 31, 2017 and March 31, 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 March 31, 2017. Management continuously monitors the Company's compliance with and anticipated compliance with the covenants. Certain of the covenants restrict the Company'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 March 31, 2017 and December 31, 2016, 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 March 31, 2017 and December 31, 2016 approximate the fair values for cash and cash equivalents, accounts receivable, other assets (except for the note receivable disclosed below), 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):

	March 31, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Unsecured notes payable	$1,365,398	$1,381,975	$1,364,854	$1,372,758
Variable rate debt	$326,789	$307,917	$326,709	$307,510
Mortgage notes payable	$320,484	$327,144	$321,549	$328,853
Note receivable (a)	$3,401	$3,918	$3,380	$3,717

(a) The inputs to originate the loan are unobservable and, as a result, are categorized as Level 3. The Company determined fair value by calculating the present value of the cash payments to be received through the maturity date of the loan. See Note 2, “Summary of Significant Accounting Policies,” to the Company’s 2016 Annual Report on Form 10-K for the year ended December 31, 2016 for further information regarding the note origination.

The inputs utilized to determine the fair value of the Company's unsecured notes payable are categorized as Level 2. This is because the Company valued these instruments using quoted market prices as of March 31, 2017 and December 31, 2016. 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 inputs utilized to determine the fair value of the Company's mortgage notes payable and variable rate debt are categorized as Level 3. 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 inputs 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 to calculate fair value as of March 31, 2017 and December 31, 2016 was 4.507% and 4.353%, 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 March 31, 2017 and December 31, 2016. 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 March 31, 2017, 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 was $14.9 million at each of March 31, 2017 and December 31, 2016, 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 March 31, 2017 and December 31, 2016 was approximately $24.0 million and $24.4 million, respectively.

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 March 31, 2017 and December 31, 2016. 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 assets and other liabilities on the Company's consolidated balance sheets).

Hedge Product	Hedge Type	Designation		Notional Amount 3/31/2017	12/31/2016	Strike	Trade Date	Maturity Date	Fair value 3/31/2017	12/31/2016
Assets										
Swap	Interest Rate	Cash Flow	(a)	$250,000	$250,000	3.718%	October 8, 2015	October 8, 2022	$4,572	$3,733
Liabilities										
Swap	Interest Rate	Cash Flow	(a)	25,774	25,774	3.300%	December 22, 2011	January 30, 2021	(169)	(300)
Swap	Interest Rate	Cash Flow	(a)	25,774	25,774	3.090%	January 6, 2012	October 30, 2019	(93)	(214)
Swap	Interest Rate	Cash Flow	(a)	27,062	27,062	2.750%	December 21, 2011	September 30, 2017	(37)	(83)
				$328,610	$328,610					

(a) Hedging unsecured variable rate debt.

The Company measures its derivative instruments at fair value and records them gross in the consolidated balance sheet in other assets or other liabilities. Additionally, the Company recorded its share of the fair value of derivative financial instruments held by its unconsolidated real estate ventures, as of March 31, 2017.

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 March 31,		
	2017		2016
	Basic	Diluted	