BRANDYWINE REALTY TRUST
Form 10-K
February 22, 2019

BRANDYWINE REALTY TRUST BRANDYWINE OPERATING PARTNERSHIP, L.P. BDN 0000790816 0001060386 2018-12-31 false false FY FY --12-31 --12-31 Yes Yes No No Yes Yes Large Accelerated Filer Non-accelerated Filer false false false false false false P5Y P55Y P1Y P16Y P1Y 1 0.15 0.70 1 1 2020-03-01 P2Y P57Y 2019-04-15 2020-04-15 2021-04-15 P10Y 38000000 1 0.70 0.15 1 1 P10Y P5Y P6M P1Y1M6D P1Y3M P1Y3M P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P30Y P40Y P29Y P29Y P25Y P24Y P30Y P38Y P29Y P29Y P25Y P25Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P34Y P36Y P40Y P40Y P30Y P26Y P40Y P5Y P40Y P12Y P40Y P50Y P40Y P55Y P52Y P45Y P45Y P45Y P52Y P51Y P35Y P35Y P35Y P35Y P35Y P40Y P35Y P35Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P40Y P30Y P23Y 0.0110 0.0125 2020-05-01 2021-02-28 2023-04-05 2023-04-05 2022-07-15 2022-10-08 2018-04-15 2023-02-15 2024-10-01 2029-10-01 2035-03-30 2035-04-30 2035-07-30 0000790816 2018-01-01 2018-12-31 0000790816 srt:SubsidiariesMember 2018-01-01 2018-12-31 iso4217:USD 0000790816 2018-06-30 xbrli:shares 0000790816 2019-02-15 0000790816 2018-12-31 0000790816 2017-12-31 iso4217:USD xbrli:shares 0000790816 bdn:RentsMember 2018-01-01 2018-12-31 0000790816 bdn:RentsMember 2017-01-01 2017-12-31 0000790816 bdn:RentsMember 2016-01-01 2016-12-31 0000790816 bdn:TenantReimbursementsMember 2018-01-01 2018-12-31 0000790816 bdn:TenantReimbursementsMember 2017-01-01 2017-12-31 0000790816 bdn:TenantReimbursementsMember 2016-01-01 2016-12-31 0000790816 bdn:TerminationFeesMember 2018-01-01 2018-12-31 0000790816 bdn:TerminationFeesMember 2017-01-01 2017-12-31 0000790816 bdn:TerminationFeesMember 2016-01-01 2016-12-31 0000790816 bdn:ThirdPartyManagementRevenueMember 2018-01-01 2018-12-31 0000790816 bdn:ThirdPartyManagementRevenueMember 2017-01-01 2017-12-31 0000790816 bdn:ThirdPartyManagementRevenueMember 2016-01-01 2016-12-31 0000790816 us-gaap:RealEstateOtherMember 2018-01-01 2018-12-31 0000790816 us-gaap:RealEstateOtherMember 2017-01-01 2017-12-31 0000790816 us-gaap:RealEstateOtherMember 2016-01-01 2016-12-31 0000790816 2017-01-01 2017-12-31 0000790816 2016-01-01 2016-12-31 0000790816 us-gaap:PreferredStockMember 2015-12-31 0000790816 us-gaap:CommonStockMember 2015-12-31 0000790816 us-gaap:DeferredCompensationShareBasedPaymentsMember 2015-12-31 0000790816 us-gaap:AdditionalPaidInCapitalMember 2015-12-31 0000790816 bdn:CommonStockHeldInTrustMember 2015-12-31 0000790816 us-gaap:RetainedEarningsMember 2015-12-31 0000790816 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2015-12-31 0000790816 us-gaap:AccumulatedDistributionsInExcessOfNetIncomeMember 2015-12-31 0000790816 us-gaap:NoncontrollingInterestMember 2015-12-31 0000790816 2015-12-31 0000790816 us-gaap:RetainedEarningsMember 2016-01-01 2016-12-31 0000790816 us-gaap:NoncontrollingInterestMember 2016-01-01 2016-12-31 0000790816 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2016-01-01 2016-12-31 0000790816 us-gaap:CommonStockMember 2016-01-01 2016-12-31 0000790816 us-gaap:AdditionalPaidInCapitalMember 2016-01-01 2016-12-31 0000790816 us-gaap:DeferredCompensationShareBasedPaymentsMember 2016-01-01 2016-12-31 0000790816 bdn:CommonStockHeldInTrustMember 2016-01-01 2016-12-31 0000790816 us-gaap:AccumulatedDistributionsInExcessOfNetIncomeMember 2016-01-01 2016-12-31 0000790816 us-gaap:PreferredStockMember 2016-12-31 0000790816 us-gaap:CommonStockMember 2016-12-31 0000790816 us-gaap:DeferredCompensationShareBasedPaymentsMember 2016-12-31 0000790816 us-gaap:AdditionalPaidInCapitalMember 2016-12-31 0000790816 bdn:CommonStockHeldInTrustMember 2016-12-31 0000790816 us-gaap:RetainedEarningsMember 2016-12-31 0000790816 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2016-12-31 0000790816 us-gaap:AccumulatedDistributionsInExcessOfNetIncomeMember 2016-12-31 0000790816 us-gaap:NoncontrollingInterestMember 2016-12-31 0000790816 2016-12-31 0000790816 us-gaap:RetainedEarningsMember 2017-01-01 2017-12-31 0000790816 us-gaap:NoncontrollingInterestMember 2017-01-01 2017-12-31 0000790816 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-01-01

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0000790816 bdn:A2FosterAvenueMember us-gaap:AllOtherSegmentsMember 2018-01-01 2018-12-31 0000790816 bdn:A4FosterAvenueMember us-gaap:AllOtherSegmentsMember 2018-01-01 2018-12-31 0000790816 bdn:A1FosterAvenueMember us-gaap:AllOtherSegmentsMember 2018-01-01 2018-12-31 0000790816 bdn:A5USAvenueMember us-gaap:AllOtherSegmentsMember 2018-01-01 2018-12-31 0000790816 bdn:A5FosterAvenueMember us-gaap:AllOtherSegmentsMember 2018-01-01 2018-12-31 0000790816 bdn:MainStreetPlaza1000Member us-gaap:AllOtherSegmentsMember 2018-01-01 2018-12-31 0000790816 bdn:MainStreetPiazzaMember us-gaap:AllOtherSegmentsMember 2018-01-01 2018-12-31 0000790816 bdn:MainStreetPromenadeMember us-gaap:AllOtherSegmentsMember 2018-01-01 2018-12-31 0000790816 bdn:A920NorthKingStreetMember us-gaap:AllOtherSegmentsMember 2018-01-01 2018-12-31 0000790816 bdn:A300DelawareAvenueMember us-gaap:AllOtherSegmentsMember 2018-01-01 2018-12-31 0000790816 bdn:AccumulatedDepreciationIncludingHFSMember 2018-12-31 0000790816 bdn:AccumulatedDepreciationIncludingHFSMember 2017-12-31 0000790816 bdn:AccumulatedDepreciationIncludingHFSMember 2016-12-31 0000790816 bdn:A618634MarketStreetMember bdn:PhiladelphiaCBDMember bdn:ParkingStructureMember 2018-01-01 2018-12-31 0000790816 bdn:LeasholdInterestLandMember 2018-12-31 0000790816 bdn:LandParcelOneMember 2018-01-01 2018-12-31 0000790816 bdn:LandParcelTwoMember 2018-01-01 2018-12-31

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

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.) |
|---|---|

2929 Walnut Street

| Suite 1700 | |
|---|---|
| Philadelphia, Pennsylvania | 19104 |
| (Address of principal executive offices) | (Zip Code) |

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

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Shares of Beneficial Interest, par value $0.01 per share (Brandywine Realty Trust) | New York Stock Exchange |

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

Units of General Partnership Interest (Brandywine Operating Partnership, L.P.)

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

| | | |
|---|---|---|
| Brandywine Realty Trust | Yes | No |
| Brandywine Operating Partnership, L.P. | Yes | No |

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

| | | |
|---|---|---|
| Brandywine Realty Trust | Yes | No |
| Brandywine Operating Partnership, L.P. | Yes | No |

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 every Interactive Data File required to be submitted 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 such files).

| | | |
|---|---|---|
| Brandywine Realty Trust | Yes | No |
| Brandywine Operating Partnership, L.P. | Yes | No |

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 |

If an emerging growth company, indicate by check mark whether 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 Exchange Act.

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 |

As of June 30, 2018, the aggregate market value of the Common Shares of Beneficial Interest held by non-affiliates of Brandywine Realty Trust was $2,970,155,345 based upon the last reported sale price of $16.88 per share on the New York Stock Exchange on June 30, 2018. An aggregate of 175,813,097 Common Shares of Beneficial Interest was outstanding as of February 15, 2019.

As of June 30, 2018 the aggregate market value of the 1,479,799 common units of limited partnership ("Units") held by non-affiliates of Brandywine Operating Partnership, L.P. was $24,979,007 based upon the last reported sale price of $16.88 per share on the New York Stock Exchange on June 30, 2018 of the Common Shares of Beneficial Interest of Brandywine Realty Trust, the sole general partner of Brandywine Operating Partnership, L.P. (For this computation, the Registrant has excluded the market value of all Units beneficially owned by Brandywine Realty Trust.)

Documents Incorporated By Reference

Portions of the proxy statement for the 2019 Annual Meeting of Shareholders of Brandywine Realty Trust are incorporated by reference into Part III of this Form 10-K.

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EXPLANATORY NOTE

This report combines the annual reports on Form 10-K for the year ended December 31, 2018 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, terms such as “we”, “us”, or “our” used in this report 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 December 31, 2018, owned a 99.4% interest in the Operating Partnership. The remaining 0.6% 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.

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 in 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.

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. These members are officers of both the Parent Company and of the Operating Partnership.

The Company believes that combining the annual reports on Form 10-K 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 the 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 public 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 direct or indirect incurrence of indebtedness or through the issuance of partnership units of the Operating Partnership or equity interests in subsidiaries of the Operating Partnership.

The equity and noncontrolling 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 noncontrolling 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;
- Parent Company's and Operating Partnership's Equity

This report also includes separate Item 9A. (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 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-K is being filed separately by Brandywine Realty Trust (the “Parent Company”) and Brandywine Operating Partnership, L.P. (the “Operating Partnership”).

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking statements. This report and other materials filed by us with the Securities and Exchange Commission (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. These forward-looking statements are inherently uncertain, and actual results may differ from expectations. Our actual future results and trends may differ materially from expectations depending on a variety of factors discussed in our filings with the Securities and Exchange Commission (the “SEC”). These factors include without limitation:

- The continuing impact of modest global economic growth, which is having and may continue to have a negative effect on, among other things, the following:
- the fundamentals of our business, including overall market occupancy, demand for office space and rental rates;
- the financial condition of our tenants, many of which are financial, legal and other professional firms, our lenders, counterparties to our derivative financial instruments and institutions that hold our cash balances and short-term investments, which may expose us to increased risks of default by these parties;
- the availability of financing on attractive terms or at all, which may adversely impact our future interest expense and our ability to pursue acquisition and development opportunities and refinance existing debt; and
- real estate asset valuations, a decline in which may limit our ability to dispose of assets at attractive prices or obtain or maintain debt financing secured by our properties or on an unsecured basis.
- changes in local real estate conditions (including changes in rental rates and the number of properties that compete with our properties);
- our failure to lease unoccupied space in accordance with our projections;
- our failure to re-lease occupied space upon expiration of leases;
- tenant defaults and the bankruptcy of major tenants;
- increases in interest rates;
- failure of interest rate hedging contracts to perform as expected and the effectiveness of such arrangements;
- failure of acquisitions, developments and other investments, including projects undertaken through joint ventures, to perform as expected;
- unanticipated costs associated with the purchase, integration and operation of our acquisitions;
- unanticipated costs to complete, lease-up and operate our developments and redevelopments;
- unanticipated costs associated with land development, including building moratoriums and inability to obtain necessary zoning, land-use, building, occupancy and other required governmental approvals, construction cost increases or overruns and construction delays;
- impairment charges;
- increased costs for, or lack of availability of, adequate insurance, including for terrorist acts or environmental liabilities;
- actual or threatened terrorist attacks;
- cybersecurity attacks;
- the impact on workplace and tenant space demands driven by technology, employee culture and commuting patterns;
- demand for tenant services beyond those traditionally provided by landlords;

- liability and clean-up costs incurred under environmental or other laws;
- risks associated with our investments in real estate ventures and unconsolidated entities, including our lack of sole decision-making authority and our reliance on our venture partners’ financial condition;
- inability of real estate venture partners to fund venture obligations or perform under our real estate venture development agreements;
- failure to manage our growth effectively into new product types within our portfolio and real estate venture arrangements;

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- failure of dispositions to close in a timely manner;
- the impact of earthquakes and other natural disasters;
- the impact of climate change and compliance costs relating to laws and regulations governing climate change;
- risks associated with federal, state and local tax audits;
- complex regulations relating to our status as a real estate investment trust, or REIT, and the adverse consequences of our failure to qualify as a REIT; and
- changes in accounting principles, or their application or interpretation, and our ability to make estimates and the assumptions underlying the estimates, which could have an effect on our earnings.

Given these uncertainties, and the other risks identified in the "*Risk Factors*" section and elsewhere in this report, 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.

PART I

**Item 1.** Business

Introduction

We are a self-administered and self-managed 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. As of December 31, 2018, we owned 97 properties that contained an aggregate of approximately 16.8 million net rentable square feet (collectively, the "Properties"). Our core portfolio of operating properties, as of December 31, 2018, excludes one development property and three redevelopment properties under construction or committed for construction (collectively, the "Core Properties"). The Properties were comprised of the following as of December 31, 2018:

| | Number of Properties | Rentable Square Feet | Percentage Occupied | Percentage Leased |
|---|---|---|---|---|
| Office properties | 88 | 15,609,156 | | |
| Mixed-use properties | 4 | 646,741 | | |
| Retail property | 1 | 17,884 | | |
| Core Properties | 93 | 16,273,781 | 93.3% | 95.3% |
| Development property | 1 | 164,818 | | |
| Redevelopment properties | 3 | 338,650 | | |
| The Properties | 97 | 16,777,249 | | |

In addition to the Properties, as of December 31, 2018, we owned land held for development, comprised of 237.4 acres of undeveloped land, of which 37.9 acres were held for sale, 1.8 acres related to leasehold interests in two land parcels each acquired through prepaid 99-year ground leases, and held options to purchase approximately 55.5 additional acres of undeveloped land. As of December 31, 2018, the total potential development that these land parcels could support, under current zoning and entitlements, including the parcels under option, amounted to an estimated 14.3 million square feet, of which 0.4 million square feet relates to 37.9 acres held for sale.

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; Wilmington, Delaware; and Austin, Texas.

We conduct our third-party real estate management services business primarily through wholly-owned management company subsidiaries. As of December 31, 2018, the management company subsidiaries were managing properties containing an aggregate of approximately 24.8 million net rentable square feet, of which approximately 16.8 million net rentable square feet related to Properties that we own and consolidate and approximately 8.0 million net rentable square feet related to properties owned by third parties and the Real Estate Ventures.

During the twelve months ended December 31, 2018, we owned and managed properties within five markets: (1) Philadelphia Central Business District ("Philadelphia CBD"), (2) Pennsylvania Suburbs, (3) Austin, Texas (4) Metropolitan Washington, D.C., and (5) Other. The Philadelphia CBD segment includes properties located in the City of Philadelphia in Pennsylvania. The Pennsylvania Suburbs segment includes properties in Chester, Delaware and Montgomery counties in the Philadelphia suburbs. The Austin, Texas segment includes properties in the City of Austin, Texas. The Metropolitan Washington, D.C. segment includes properties in Northern Virginia, Washington, D.C. and southern Maryland. The Other segment includes properties in Camden County in New Jersey and properties in New Castle County in Delaware. In addition to the five markets, 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.

Unless otherwise indicated, all references in this Form 10-K to "square feet" represent the net rentable area. We do not have any foreign operations and our business is not seasonal. Our operations are not dependent on a single tenant or a few tenants and no single tenant accounted for more than 10% of our total 2018 revenue.

Organization

The Parent Company was organized and commenced its operations in 1986 as a Maryland REIT. The Parent Company owns its assets and conducts its operations through the Operating Partnership and subsidiaries of the Operating Partnership. The Operating Partnership was formed in 1996 as a Delaware limited partnership. The Parent Company controls the Operating Partnership as its sole general partner. As of December 31, 2018, the Parent Company owned a 99.4% interest in the Operating Partnership. The remaining 0.6% interest in the Operating Partnership consists of common units of limited partnership interest issued to the holders in exchange for contributions of properties to the Operating Partnership. Our structure as an "UPREIT" is designed, in part, to permit persons contributing properties to us to defer some or all of the tax liability they might otherwise incur in a sale of properties. Our executive offices are located at 2929 Walnut Street, Suite 1700, Philadelphia, PA 19104 and our telephone number is (610) 325-5600. We have offices in Philadelphia, Pennsylvania; Radnor, Pennsylvania; McLean, Virginia; Washington, D.C.; Camden, New Jersey; Richmond,

Virginia; and Austin, Texas. We have an internet website at www.brandywinerealty.com. We are not incorporating by reference into this report any material from our website. The reference to our website is an inactive textual reference to the uniform resource locator (URL) and is for your reference only.

2018 Transactions

Real Estate Acquisitions

On December 19, 2018, we acquired an office property containing 120,559 rentable square feet located at 4516 Seton Center Parkway in Austin, Texas, known as Quarry Lake II, for a gross purchase price of $39.5 million. We capitalized $0.1 million of acquisition-related costs and funded the acquisition with a borrowing of $39.0 million from our unsecured credit facility.

On December 11, 2018, we acquired from DRA Advisors ("DRA"), its 50% ownership interest in the G&I Austin Office LLC real estate venture (the "DRA Austin Venture") for an aggregate purchase price of $535.1 million. The DRA Austin Venture owned twelve office properties (the "Austin Venture Portfolio"), containing an aggregate 1,570,123 square feet, located in Austin, Texas. As a result of our acquisition, we acquired complete ownership of the Austin Venture Portfolio. The aggregate purchase price includes the carrying amount of our investment in DRA Austin Venture of $14.6 million. At settlement, we assumed $115.5 million of mortgage debt and received a credit at settlement of $130.7 million for a note receivable provided to the DRA Austin Venture on November 1, 2018. This note receivable was used to repay one of DRA Austin Venture's mortgage loans prior to the December 11, 2018 acquisition date. We also obtained working capital of $24.9 million. Subsequent to receiving cash proceeds of $28.3 million for our promoted interest in the DRA Austin Venture and recognizing a remeasurement gain of $103.8 million, reflected in the caption "Net gain on real estate venture transactions" in our consolidated statements of operations, we funded the acquisition with an aggregate cash payment of $117.3 million. Additionally, the assumed mortgage debt of $115.5 million was repaid at settlement. Both cash payments were effected through borrowings under our unsecured credit facility. We recognized a $28.3 million gain on our promoted interest in the DRA Austin Venture, reflected in the caption "Gain on promoted interest in unconsolidated real estate venture" in our consolidated statements of operations.

On June 29, 2018, we acquired, through a 99-year ground lease, the leasehold interest in a one-acre land parcel, located at 3025 JFK Boulevard, in Philadelphia, Pennsylvania. We prepaid $15.0 million of ground lease rent and capitalized $0.3 million of costs related to entering the lease. Additionally, the ground lease required us to pay $5.6 million for a leasehold valuation credit, which can be applied to increase the density of the projects subject to the Schuylkill Yards Project master development agreement.

On March 22, 2018, we acquired, through a 99-year ground lease, the leasehold interest in a one-acre land parcel, located at 3001-3003 JFK Boulevard, in Philadelphia, Pennsylvania. We prepaid $24.6 million of ground lease rent and capitalized $0.3 million of costs related to entering the lease.

3025 JFK Boulevard and 3001-3003 JFK Boulevard are located within the Schuylkill Yards Project site in the University City sub-market of Philadelphia, Pennsylvania. See "*Developments – Other Development Activities*" section below for additional information.

On January 5, 2018, we acquired, from our then partner in each of the Four Tower Bridge real estate venture and the Seven Tower Bridge real estate venture, the partner's 35% ownership interest in the Four Tower Bridge real estate venture in exchange for our 20% ownership interest in the Seven Tower Bridge real estate venture. As a result of this non-monetary exchange, we acquired 100% of the Four Tower Bridge real estate venture, which owns an office property containing 86,021 square feet, in Conshohocken, Pennsylvania, encumbered with $9.7 million in debt. Our acquisition of the 35% ownership interest in Four Tower Bridge resulted in the consolidation of the property. As such, we capitalized $0.1 million of acquisition related costs and allocated the acquisition value, consisting of the fair value of $23.6 million and the acquisition related costs, to tangible and intangible assets.

*Real Estate Dispositions*

We sold the following properties during the twelve-month period ended December 31, 2018 (dollars in thousands):

| Disposition Date | Property/Portfolio Name | Location | Type | Number of Properties | Rentable Square Feet | Sales Price | Net Proceeds on Sale | Ga |
|---|---|---|---|---|---|---|---|---|
| December 21, 2018 | Subaru National Training Center | Camden, NJ | Mixed-use | 1 | 83,000 | $45,300 | $44,877 | $2 |
| December 20, 2018 | Rockpoint Portfolio | Herndon, VA | Office | 8 | 1,293,197 | 312,000 | 262,442 | 3 |
| June 21, 2018 | 20 East Clementon Road | Gibbsboro, NJ | Office | 1 | 38,260 | 2,000 | 1,850 | ( |
| Total Dispositions | | | | 10 | 1,414,457 | $359,300 | $309,169 | $2 |

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

(b) During the second quarter of 2018, Subaru exercised its purchase option under the lease agreement for the 83,000 square foot build-to-suit service center (the "Subaru NSTC Development") and the sale closed during the fourth quarter of 2018. See Note 2, "*Summary of Significant Accounting Policies*," to our Consolidated Financial Statements for further discussion of the lease agreement and related revenue recognition.

(c) On December 20, 2018, we contributed a portfolio of eight properties containing an aggregate of 1,293,197 square feet, located in our Metropolitan Washington, D.C. segment (the "Rockpoint Portfolio") to a newly-formed joint venture (the "Herndon Innovation Center Metro Portfolio Venture, LLC") for a gross sales price of $312.0 million. We and our partner own 15% and 85% interests in the Herndon Innovation Center Metro Portfolio Venture, LLC, respectively. The Herndon Innovation Center Metro Portfolio Venture, LLC funded the acquisition with $265.2 million of cash, which was distributed to us at closing. After funding our share of closing costs and working capital contributions of $2.2 million and $0.6 million, respectively, we received $262.4 million of cash proceeds at settlement. We recorded an impairment charge of $56.9 million for the Rockpoint Portfolio during the third quarter of 2018. We recorded a $0.4 million gain on sale, which represents an adjustment to estimated closing costs used to determine the impairment charge in the third quarter of 2018. For further information related to this transaction, see the "*Herndon Innovation Center Metro Portfolio Venture, LLC*" section in Note 4, "*Investment in Unconsolidated Real Estate Ventures*," to our Consolidated Financial Statements.

We sold the following land parcels during the twelve-month period ended December 31, 2018 (dollars in thousands):

| Disposition Date | Property/Portfolio Name | Location | Number of Parcels | Acres | Sales Price | Net Proceeds on Sale | Gain on Sale | |
|---|---|---|---|---|---|---|---|---|
| March 16, 2018 | Garza Ranch - Office | Austin, TX | 1 | 6.6 | $14,571 | $ 14,509 | $1,515 | (a) |
| January 10, 2018 | Westpark Land | Durham, NC | 1 | 13.1 | 485 | 412 | 22 | |
| Total Dispositions | | | 2 | 19.7 | $15,056 | $ 14,921 | $1,537 | |

(a) As of March 31, 2018, we had not transferred control to the buyer of this land parcel, or two other parcels at this site which were sold during 2017, because of a completion guarantee which required us, 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 our consolidated balance sheets. During the three months ended June 30, 2018, the infrastructure improvements were substantially completed, at which time we transferred control

of the land parcels. As a result, we then recognized the sales of the three land parcels during 2018 and recorded an aggregate $2.8 million gain. During the quarter ended December 31, 2018, we recognized an additional $0.2 million gain. See Note 2, *"Summary of Significant Accounting Policies,"* to our Consolidated Financial Statements for further discussion of the infrastructure improvements and related revenue recognition.

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

Held for Use Impairment

As of December 31, 2018, we evaluated the recoverability of the carrying value of certain properties that triggered an assessment under the undiscounted cash flow model. Based on our evaluation, we determined we would not recover the carrying value of one property located in our Other segment, 1900 Gallows Road, located in Vienna, Virginia, due to a reduction in the intended hold period. Accordingly, we recorded an impairment charge of $14.8 million at December 31, 2018, reflected in the results for the twelve-month period ended December 31, 2018, which reduced the carrying value of the property from $52.8 million to its estimated fair value of $37.9 million. We measured this impairment based on a discounted cash flow analysis, using a hold period of ten years and a residual capitalization rate and discount rate of 7.5% and 9.5%, respectively. The result was comparable to indicative pricing in the market.

*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 December 31, 2018 (in thousands):

| | Held for Sale Properties December 31, 2018 | | |
|---|---|---|---|
| | Pennsylvania Suburbs - Land (a) | Other - Land (a) | Total |
| ASSETS HELD FOR SALE | | | |
| Real estate investments: | | | |
| Land inventory | $4,254 | $7,345 | $11,599 |
| Total real estate investments | 4,254 | 7,345 | 11,599 |
| Total assets held for sale, net | $4,254 | $7,345 | $11,599 |

(a) As of December 31, 2018, we determined that the sales of one land parcel in our Pennsylvania Suburbs segment and two parcels of land in our Other segment were probable and classified these properties as held for sale in accordance with applicable accounting standards for long-lived assets. At such date, the fair value less the anticipated costs of sale of the properties exceeded the carrying values. As a result, there is no impairment. The fair value measurement will be based on the pricing in the purchase and sale agreements.

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

Unsecured Debt Activity

On July 17, 2018, we amended and restated our unsecured revolving credit agreement (as amended and restated, the “2018 Credit Facility”). The amendment and restatement, among other things: (i) maintained the total commitment of the revolving line of credit of $600.0 million; (ii) extended the maturity date from May 15, 2019 to July 15, 2022, with two six-month extensions at our election subject to specified conditions and subject to payment of an extension fee; (iii) reduced the interest rate margins applicable to Eurodollar loans; (iv) provided for an additional interest rate option based on a floating LIBOR rate; and (v) removed the covenant requiring us to maintain a minimum net worth. In connection with the amendments, we capitalized $2.7 million in financing costs, which will be amortized through the July 15, 2022 maturity date.

*Brandywine - AI Venture: Station Square Disposition*

On December 28, 2018, the BDN – AI Venture, an unconsolidated real estate venture in which we hold a 50% interest, sold three properties containing an aggregate of 510,202 rentable square feet located in Silver Spring, Maryland ("Station Square"), for a gross sales price of $107.0 million. At the time of sale, the properties were encumbered by a $66.5 million first mortgage financing, which was repaid in full at closing, resulting in a debt prepayment penalty of $0.7 million. Net of the first mortgage payoff and closing costs, BDN – AI Venture received cash proceeds of $34.8 million. On account of our 50% interest in the BDN – AI Venture, we received net cash proceeds of $17.4 million and recognized a $1.5 million gain on the sale, reflected in the "Net gain on real estate venture transactions" caption in our consolidated statements of operations for the period ended December 31, 2018. Subsequent to the sale transaction, the BDN – AI Venture continued to own two properties containing an aggregate of 364,277 rentable square feet.

Brandywine - AI Venture: 3141 Fairview Park Drive Impairment

During the period ended December 31, 2018, the BDN – AI Venture recorded a $20.8 million held for use impairment charge related to 3141 Fairview Park Drive and 3130 Fairview Park Drive (the "Fairview Properties"). As of December 31, 2018, after the $20.8 million impairment charge, the carrying value of the properties was $50.4 million. Our share of this impairment charge was $10.4 million and is reflected in the "Equity in loss of Real Estate Ventures" caption in our consolidated statements of operations for the period ended December 31, 2018. Subsequent to recording this impairment charge, we had a net basis of $15.8 million in the venture. See Note 4, "*Investment in Unconsolidated Real Estate Ventures*," to the Consolidated Financial Statements for further information regarding this disposition.

Brandywine - AI Venture: Other Than Temporary Impairment

As of December 31, 2018, we evaluated the recoverability of our investment basis in BDN – AI Venture utilizing a discounted cash flow model. Based on our evaluation of the fair value of our investment in the two properties that remained owned by the BDN – AI Venture subsequent to the disposition of Station Square, we determined that a persistent weak demand for office space and intense competition for tenants had reduced our share of the fair value of the remaining properties to be less than our investment basis in BDN – AI Venture. As a result, we concluded that the decline in value was other than temporary. Subsequent to recording a $4.1 million impairment charge, we had a net basis of $11.7 million in the venture.

MAP Venture

On August 1, 2018, MAP Venture, an unconsolidated real estate venture in which we hold a 50% ownership interest, refinanced its $180.8 million third party debt financing, secured by the buildings of MAP Venture and maturing February 9, 2019, with $185.0 million third party debt financing, also secured by the buildings of the venture, bearing interest at LIBOR + 2.45% capped at a total maximum interest of 6.00% and maturing on August 1, 2023.

Brandywine 1919 Ventures

On June 26, 2018, we and our partner, LCOR/Calstrs, each provided a $44.4 million mortgage loan to Brandywine 1919 Ventures, an unconsolidated real estate venture in which we and LCOR/Calstrs each hold a 50% ownership interest. As a result, we recorded a related-party note receivable of $44.4 million in the "Other assets" caption on our consolidated balance sheets. The loan bears interest at a fixed 4.0% rate with a scheduled maturity on June 25, 2023. Brandywine 1919 Ventures used the loan proceeds to fund the $88.8 million repayment of its construction loan, which included $88.6 million in outstanding principal and $0.2 million of interest, on June 26, 2018.

Developments/Redevelopments

As of December 31, 2018, we owned approximately 237.4 acres of undeveloped land, of which 37.9 acres were held for sale, 1.8 acres related to leasehold interests in two land parcels, each acquired through prepaid 99-year ground leases, and held options to purchase approximately 55.5 additional acres of undeveloped land.

As of December 31, 2018, we had four projects under development/redevelopment comprised of three office projects and one mixed-use project, which aggregate approximately 0.5 million rentable square feet, and a public park related to the Schuylkill Yards Project. We estimate the total remaining investment to complete these projects is approximately $56.4 million. As of December 31, 2018, we

had invested approximately $89.1 million in these projects. For a detailed list of the properties under development/redevelopment see Item 2., "*Properties.*"

4040 Wilson Venture

4040 Wilson, a 50/50 real estate venture between Ashton Park and us, is developing a 427,500 square foot mixed-use building, representing the final phase of the eight building, mixed-use, Liberty Center complex located in the Ballston submarket of Arlington, Virginia. The project is being constructed on a 1.3 acre land parcel contributed by Ashton Park to 4040 Wilson at an agreed upon value of $36.0 million. During the fourth quarter of 2017, 4040 Wilson achieved pre-leasing levels that enabled the venture to obtain a secured construction loan with a total borrowing capacity of $150.0 million for the remainder of the project costs. The total estimated project costs are $224.8 million, which we expect will be financed through approximately $74.8 million of partner capital contributions and $150.0 million in proceeds from the secured construction loan. As of December 31, 2018, $57.3 million had been advanced under the construction loan, and the venture had commenced construction of the mixed-use building. If construction costs were to exceed estimates, our equity method investment in 4040 Wilson could become other than temporarily impaired. As of December 31, 2018, we utilized a third-party valuation analysis to support our conclusion that 4040 Wilson is not other than temporarily impaired.

Other Development Activities

Schuylkill Yards Project

On May 9, 2016, we entered into a master development agreement (the "Development Agreement") with Drexel University, a Pennsylvania non-profit corporation, and an affiliate of Drexel University, (collectively "Drexel"), that provides for our rights and obligations, as master developer, of a multi-phase, multi-component development on approximately 10.0 acres of land owned by Drexel and adjacent to Drexel's main campus in the University City section of Philadelphia, Pennsylvania (the "Development Site"). Adjacent to the Development Site are an additional four acres controlled by Brandywine and Drexel which, when combined with the Development Site, comprise the 14-acre Schuylkill Yards Project master planned area. We refer to the overall development, including the Development Site, as the "Schuylkill Yards Project."

The Development Site is contemplated to be developed in six phases over an approximately 20-year period, excluding extension options, and is anticipated to consist of an aggregate of approximately 5.1 million of floor area ratio, or FAR, of office, residential, advanced manufacturing, research facilities and academic 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. As of December 31, 2018 we have entered 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 in connection with our construction of additional facilities under subsequent phases at the Development Site.

We contemplate that the initial phase of new construction at the Development Site will consist of a mixed-use facility containing approximately 500,000 square feet including traditional office, retail and residential space. As of the date of this Form 10-K, we have not finalized the scope of the development or entered into any construction contracts.

On June 29, 2018, we acquired, through a 99-year ground lease, the leasehold interest in a one-acre land parcel, located at 3025 JFK Boulevard, in Philadelphia, Pennsylvania. We prepaid $15.0 million of ground lease rent and capitalized $0.3 million of costs related to entering the lease. Additionally, the ground lease required us to pay $5.6 million for a leasehold valuation credit, which can be applied to increase the density of the projects subject to the Schuylkill Yards Project master development agreement. Of this deposit, $2.4 million must be applied to the

development of 3001-3003 and 3025 JFK Boulevard. If we do not construct a minimum of 1.2 million square feet of (“FAR”) on these land parcels, the credit will not be realized. The remaining credit of $3.2 million can be used for development in excess of 1.2 million FAR at 3001-3003 and 3025 JFK Boulevard or toward future ground lease takedowns at the Schuylkill Yards Development Site. The deposit is reimbursed if the master development agreement is terminated by the landowner.

On March 22, 2018, we acquired, through a 99-year ground lease, the leasehold interest in a one-acre land parcel, located at 3001-3003 JFK Boulevard, in Philadelphia, Pennsylvania. We prepaid $24.6 million of ground lease rent and, in accordance with ASC 840, capitalized $0.3 million of costs related to entering the lease.

Actual timing and scope of subsequent phases of development will depend on timing and scope of previous phases, third party approvals, preleasing and other design and development-related determinations. Overall, approximately 52% of the FAR is designated office, including lab and academic 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 real estate venture formations, and proceeds from the sale of other assets or debt financing, including project-specific mortgage financing. As of the date of this report, we have not entered into agreements with third parties for real estate 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.

Business Objective and Strategies for Growth

Our business objective is to deploy capital effectively to maximize our return on investment and thereby maximize our total return to shareholders. To accomplish this objective we seek to:

- concentrate on urban town centers and central business districts in selected regions, and be the best of class owner and developer in those markets with a full-service office in each of those markets providing property management, leasing, development, construction and legal expertise;
- maximize cash flow through leasing strategies designed to capture rental growth as rental rates increase and as leases are renewed;
- attain high tenant retention rates by providing a full array of property management, maintenance services and tenant service amenity programs responsive to the varying needs of our diverse tenant base;
- continue to cultivate long-term leasing relationships with a diverse base of high-quality and financially stable tenants;
- form joint ventures with high-quality partners having attractive real estate holdings or significant financial resources;
- utilize our reputation as a full-service real estate development and management organization to identify acquisition and development opportunities that will expand our business and create long-term value;
- increase the economic diversification of our tenant base while maximizing economies of scale; and
- selectively dispose of properties that do not support our long-term business objectives and growth strategies.

We also consider the following to be important objectives:

- to develop and opportunistically acquire high-quality office properties at attractive yields in markets that we expect will experience economic growth and where we can achieve operating efficiencies;
- to monetize or deploy our land inventory for development of high-quality office properties, or rezone from office/industrial to residential, retail and hotel to align with market and demand shifts as appropriate;
- to control development sites, including sites under option to acquire, that could support approximately 14.3 million square feet of new office, retail and residential development within our core markets;
- to capitalize on our redevelopment expertise to selectively develop, redevelop and reposition properties in desirable locations that other organizations may not have the resources to pursue;
- to own and develop high quality office and mixed-use real estate meeting the demands of today's tenants who require sophisticated telecommunications and related infrastructure, support services, sustainable features and amenities, and to manage those facilities so as to continue to be the landlord of choice for both existing and prospective tenants;
- to strategically grow our portfolio through the development and acquisition of new product types that support our strategy of transient-oriented and amenity based mixed-use properties located in the central business district of Philadelphia, Pennsylvania; Pennsylvania Suburbs; Austin, Texas; and Washington, D.C.; and
- to secure third-party development contracts, which can be a significant source of revenue and enable us to utilize and grow our existing development and construction management resources.

We expect to concentrate our real estate activities in markets where we believe that:

- current and projected market rents and absorption statistics justify construction activity;
- we can maximize market penetration by accumulating a critical mass of properties and thereby enhance operating efficiencies;

- barriers to entry (such as zoning restrictions, utility availability, infrastructure limitations, development moratoriums and limited developable land) will create supply constraints on available space; and
- there is potential for economic growth, particularly job growth and industry diversification.

Operating Strategy

We currently expect to continue to operate in markets where we have a concentration advantage due to economies of scale. We believe that where possible, it is best to operate with a strong base of properties in order to benefit from the personnel allocation and the market strength associated with managing multiple properties in the same market. We also intend to selectively dispose of properties and redeploy capital if we determine a property cannot meet our long term earnings growth expectations. We believe that recycling capital is an important aspect of maintaining the overall quality of our portfolio.

Our broader strategy remains focused on continuing to grow earnings, enhance liquidity and strengthen our balance sheet through capital retention, debt reduction, targeted sales activity and management of our existing and prospective liabilities.

In the long term, we believe that we are well positioned in our current markets and have the expertise to take advantage of both development and acquisition opportunities, as warranted by market and economic conditions, in new markets that have healthy long-term fundamentals and strong growth projections. This capability, combined with what we believe is a conservative financial structure, should allow us to achieve disciplined growth. These abilities are integral to our strategy of having a diverse portfolio of assets, which will meet the needs of our tenants.

We use experienced on-site construction superintendents, operating under the supervision of project managers and senior management, to control the construction process and mitigate the various risks associated with real estate development.

In order to fund developments, redevelopments and acquisitions, as well as refurbish and improve existing properties, we primarily use proceeds from property dispositions and excess cash from operations after satisfying our dividend and other financing requirements. The availability of funds for new investments and maintenance of existing properties largely depends on capital markets and liquidity factors over which we can exert little control.

Policies With Respect To Certain Activities

The following is a discussion of our investment, financing and other policies. These policies have been determined by our Board of Trustees and our Board of Trustees may revise these policies without a vote of shareholders.

Investments in Real Estate or Interests in Real Estate

Our investment objectives are to provide quarterly cash dividends to our shareholders and to achieve long-term capital appreciation through increases in the value of operating assets.

We expect to continue our investment objectives primarily through the development, purchase or our current ownership in lease income-producing properties for long-term investment, expand and improve the properties presently owned or other properties purchased, or sell such properties, in whole or in part, as circumstances warrant. Although there is no limitation on the types of development activities that we may undertake, we expect that our development activities will meet current market demand and will generally be on a build-to-suit basis for particular tenants where a significant portion of the building is pre-leased before construction begins. We continue to participate with other entities in property ownership through existing joint ventures or other types of co-ownership. Our equity investments may be subject to existing or future mortgage financing and other indebtedness that will have priority over our equity investments.

Securities of or Interests in Entities Primarily Engaged in Real Estate Activities and Other Issuers

Subject to the ownership limitations and gross income tests necessary for REIT qualification, we may invest in securities of other entities, including other REITs or real estate companies. We may enter into joint ventures or other arrangements for the purpose of obtaining an economic interest in a particular property.

Investments in Real Estate Mortgages, Mezzanine Loans and Other Debt Instruments

While our current portfolio consists of, and our business objectives emphasize, common equity investments in commercial real estate, we may, at the discretion of management or our Board of Trustees, invest in other types of equity real estate investments, mortgages, mezzanine loans and other real estate interests. We do not presently intend to invest to a significant extent in mortgages, mezzanine loans or unsecured loans, but may invest in mortgages,

mezzanine loans, unsecured loans or preferred equity. From time to time, we provide seller financing to buyers of our properties. We do this when the buyer requires additional funds for the purchase and provision of seller financing will be beneficial to us and the buyer compared to a mortgage loan from a third party lender. Similarly, from time to time, we provide financing to our unconsolidated real estate ventures when the venture requires additional funds and the financing will be beneficial to us and the venture.

Dispositions

Our disposition of properties is based upon management's periodic review of our portfolio and the determination by management or our Board of Trustees that a disposition would be in our best interest. We intend to use selective dispositions to reduce our ownership in non-core markets and fund our capital and refinancing needs.

*Financing Policies*

A primary objective of our financing policy has been to manage our financial position to allow us to raise capital from a variety of sources at competitive rates. Our mortgages, credit facilities and unsecured debt securities contain restrictions on our ability to incur indebtedness. Our charter documents do not limit the indebtedness that we may incur. Our financing strategy is to maintain a strong and flexible financial position by limiting our debt to a prudent level and minimizing our variable interest rate exposure. We intend to finance future growth and future maturing debt with the most advantageous source of capital that is available to us. These sources may include the sale of wholly owned properties or interests in real estate ventures, selling additional common or preferred equity and debt securities through public offerings or private placements, utilizing availability under our credit facilities or incurring additional indebtedness through secured or unsecured borrowings. To qualify as a REIT, we must distribute to our shareholders each year at least 90% of our net taxable income, excluding any net capital gain. This distribution requirement limits our ability to fund future capital needs, including for acquisitions and developments, from income from operations. Therefore, we expect to continue to rely on third party sources of capital to fund future capital needs.

Guarantees

As of December 31, 2018, our unconsolidated real estate ventures had aggregate indebtedness of $370.3 million. These loans are generally mortgage or construction loans, most of which are non-recourse to us, except for customary carve-outs. As of December 31, 2018, the loans for which there is recourse to us consist of the following: (i) a $0.3 million payment guarantee on a loan with a $3.8 million outstanding principal balance, provided to PJP VII and (ii) up to a $41.3 million payment guarantee on a $150.0 million construction loan provided to 4040 Wilson. In addition, during construction undertaken by real estate ventures, including 4040 Wilson, we have provided and expect 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.

In connection with the agreements of sale related to the Garza Ranch (See "*Real Estate Acquisitions*" section above), we entered into a development agreement and related completion guarantee to construct certain infrastructure improvements to the land on behalf of each buyer. Total estimated costs related to the improvements were included in the sale price of each land parcel. During the year ended December 31, 2018, the infrastructure improvements were completed and we recognized the sales. See Note 2, *"Summary of Significant Accounting Policies,"* to our Consolidated Financial Statements for further discussion of the infrastructure improvements and related revenue recognition.

In addition, during construction undertaken by real estate ventures, we have provided and expect to continue to provide cost overrun and completion guarantees, with rights of contribution among partners in the real estate ventures, and once construction is complete, 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, "*Investments in Unconsolidated Real Estate Ventures,*" to our Consolidated Financial Statements for further information.

Working Capital Reserves

We maintain working capital reserves and access to borrowings in amounts that our management determines to be adequate to meet our normal contingencies.

Policies with Respect to Other Activities

We expect to issue additional common and preferred equity in the future and may authorize our Operating Partnership to issue additional common and preferred units of limited partnership interest, including to persons who contribute

their interests in properties to us in exchange for such units. We have not engaged in trading, underwriting or agency distribution or sale of securities of unaffiliated issuers and we do not intend to do so. We intend to make investments consistent with our qualification as a REIT, unless because of circumstances or changes in the Internal Revenue Code of 1986, as amended (or the Treasury Regulations), our Board of Trustees determines that it is no longer in our best interests to qualify as a REIT. We may make loans to third parties, including to joint ventures in which we participate and to buyers of our real estate. We intend to make investments in such a way that we will not be treated as an investment company under the Investment Company Act of 1940.

Management Activities

We provide third-party real estate management services primarily through wholly-owned subsidiaries of the Operating Partnership (collectively, the "Management Companies"). As of December 31, 2018, the Management Companies were managing properties containing an aggregate of approximately 24.8 million net rentable square feet, of which approximately 16.8 million net rentable square feet related to properties owned by us and approximately 8.0 million net rentable square feet related to properties owned by third parties and unconsolidated Real Estate Ventures.

**Geographic Segments**

During the year ended December 31, 2018, we were managing our portfolio within five segments: (1) Philadelphia Central Business District ("Philadelphia CBD"), (2) Pennsylvania Suburbs, (3) Austin, Texas, (4) Metropolitan Washington, D.C., and (5) Other.

. The Austin, Texas segment includes properties in the City of Austin, Texas. The Metropolitan Washington, D.C. segment includes properties in the District of Columbia, Northern Virginia and southern Maryland. The Other segment includes properties located in Camden County in New Jersey and properties in New Castle County in Delaware. In addition to the five segments, 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. See Note 17, "*Segment Information,*" to our Consolidated Financial Statements for information on selected assets and results of operations of our reportable segments for the three years ended December 31, 2018, 2017 and 2016.

Competition

The real estate business is highly competitive. Our Properties compete for tenants with similar properties primarily on the basis of location, total occupancy costs (including base rent and operating expenses), services and amenities provided, and the design and condition of the improvements. We also face competition when attempting to acquire or develop real estate, including competition from domestic and foreign financial institutions, other REITs, life insurance companies, pension funds, partnerships and individual investors. Additionally, our ability to compete depends upon trends in the economies of our markets, investment alternatives, financial condition and operating results of current and prospective tenants, availability and cost of capital, construction and renovation costs, land availability, our ability to obtain necessary construction approvals, taxes, governmental regulations, legislation and population trends.

Sustainability

As one of the largest, publicly traded real estate companies in the United States, we seek to provide exceptional work environments for our tenants. Our current and recent developments and redevelopments reflect our commitment to energy efficient buildings with sustainable operating practices, as we seek to encourage the health and productivity of our tenants, while lowering operating costs and identifying revenue opportunities.

In recognition of our commitments, we have been recognized as an industry leader in sustainability. During 2018, we ranked eighth among U.S. office companies in the Global Real Estate Sustainability Benchmark ("GRESB") assessment. 2018 was the fourth consecutive year that we have ranked in the top quartile of GRESB assessment participants, earnings another "Green Star" recognition. We have been a past recipient of the Environment Protection Agency's Energy Star Partner of the Year Award winner for sustained excellent for members that have demonstrated superior and sustained energy efficiency practices. We ended 2018 with 78% of our properties ENERGY STAR certified. In 2017, we ranked eighth among U.S. office companies in the GRESB assessment.

Insurance

We maintain commercial general liability and "all risk" property insurance on our Properties. We intend to obtain similar coverage for properties we acquire in the future. There are types of losses, generally of a catastrophic nature, such as losses from war, terrorism, environmental issues, floods, hurricanes and earthquakes that are subject to limitations in certain areas or which may be uninsurable risks. We exercise our discretion in determining amounts, coverage limits and deductibility provisions of insurance, with a view to maintaining appropriate insurance on our investments at a reasonable cost and on suitable terms. If we suffer a substantial loss, our insurance coverage may not be sufficient to pay the full current market value or current replacement cost of our lost investment. Inflation, changes in building codes and ordinances, environmental considerations and other factors also might make it impractical to use

insurance proceeds to fully replace or restore property after it has been damaged or destroyed.

Employees

As of December 31, 2018, we had 329 full-time employees, including 11 union employees.

Government Regulations

Environmental Regulation

Many laws and governmental regulations relating to the environment apply to us and changes in these laws and regulations, or their interpretation by agencies and the courts, occur frequently and may adversely affect us.

Existing conditions at some of our Properties. Generally, independent environmental consultants have conducted Phase I or similar environmental site assessments on our Properties. We generally obtain these assessments prior to the acquisition of a property and may later update them as required for subsequent financing of the property or as requested by a tenant. Site assessments are generally performed to ASTM standards then existing for Phase I site assessments, and typically include a historical review, a public records

review, a visual inspection of the surveyed site, and the issuance of a written report. These assessments do not generally include any soil samplings or subsurface investigations. Depending on the age of the property, the Phase I may have included an assessment of asbestos-containing materials. For properties where asbestos-containing materials were identified or suspected, an operations and maintenance plan was generally prepared and implemented.

Historical operations at or near some of our Properties, including the operation of underground storage tanks, may have caused soil or groundwater contamination. We are not aware of any such condition, liability or concern by any other means that would give rise to material, uninsured environmental liability. However, the assessments may have failed to reveal all environmental conditions, liabilities or compliance concerns; there may be material environmental conditions, liabilities or compliance concerns that a review failed to detect or which arose at a property after the review was completed; future laws, ordinances or regulations may impose material additional environmental liability; and current environmental conditions at our Properties may be affected in the future by tenants, third parties or the condition of land or operations near our Properties, such as the presence of underground storage tanks. We cannot be certain that costs of future environmental compliance will not affect our ability to make distributions to our shareholders.

Use of hazardous materials by some of our tenants. Some of our tenants handle hazardous substances and waste on our Properties as part of their routine operations. Environmental laws and regulations may subject these tenants, and potentially us, to liability resulting from such activities. We generally require our tenants, in their leases, to comply with these environmental laws and regulations and to indemnify us for any related liabilities. We are not aware of any material noncompliance, liability or claim relating to hazardous or toxic substances or petroleum products in connection with any of our Properties, and we do not believe that on-going activities by our tenants will have a material adverse effect on our operations.

Costs related to government regulation and private litigation over environmental matters. Under environmental laws and regulations, we may be liable for the costs of removal, remediation or disposal of hazardous or toxic substances present or released on our Properties. These laws could impose liability without regard to whether we are responsible for, or knew of, the presence or release of the hazardous materials. Government investigations and remediation actions may entail substantial costs and the presence or release of hazardous substances on a property could result in governmental cleanup actions or personal injury or similar claims by private plaintiffs.

Potential environmental liabilities may exceed our environmental insurance coverage limits. We carry what we believe to be sufficient environmental insurance to cover potential liability for unknown soil and groundwater contamination, mold impact, and the presence of asbestos-containing materials at the affected sites identified in our environmental site assessments. Our insurance policies are subject to conditions, qualifications and limitations. Therefore, we cannot provide any assurance that our insurance coverage will be sufficient to cover all liabilities for losses.

Potential environmental liabilities may adversely impact our ability to use or sell assets. The presence of contamination or the failure to remediate contamination may impair our ability to sell or lease real estate or to borrow using the real estate as collateral.

Americans with Disabilities Act

Our properties must comply with Title III of the Americans with Disabilities Act of 1990 (the “ADA”) to the extent that such properties are “public accommodations” as defined by the ADA. The ADA may require removal of structural barriers to permit access by persons with disabilities in certain public areas of our properties where such removal is readily achievable. We believe that our properties are in substantial compliance with the ADA and that we will not be required to incur substantial capital expenditures to address the requirements of the ADA. However, noncompliance with the ADA could result in the imposition of fines or an award of damages to private litigants. The obligation to make readily achievable accommodations is an ongoing one, and we will continue to assess our properties and make

alterations as appropriate in this respect.

Code of Conduct

We maintain a Code of Business Conduct and Ethics applicable to our Board of Trustees and all of our officers and employees, including our principal executive officer, principal financial officer, principal accounting officer, controller and persons performing similar functions. A copy of our Code of Business Conduct and Ethics is available on our website, www.brandywinerealty.com. In addition to being accessible through our website, copies of our Code of Business Conduct and Ethics can be obtained, free of charge, upon written request to Investor Relations, 2929 Walnut Street, Suite 1700, Philadelphia, PA 19104. Any amendments to or waivers of our Code of Business Conduct and Ethics that apply to our principal executive officer, principal financial officer, principal accounting officer, controller and persons performing similar functions and that relate to any matter enumerated in Item 406(b) of Regulation S-K promulgated by the SEC will be disclosed on our website.

Corporate Governance Principles and Board Committee Charters

Our Corporate Governance Principles and the charters of the Executive Committee, Audit Committee, Compensation Committee and Corporate Governance Committee of the Board of Trustees of Brandywine Realty Trust and additional information regarding our

corporate governance are available on our website, www.brandywinerealty.com. In addition to being accessible through our website, copies of our Corporate Governance Principles and charters of our Board Committees can be obtained, free of charge, upon written request to Investor Relations, Brandywine Realty Trust, 2929 Walnut Street, Suite 1700, Philadelphia, PA 19104.

Availability of SEC Reports

We file annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and other information with the SEC. The SEC maintains an Internet web site that contains reports, proxy and information statements and other information regarding issuers, including us, that file electronically with the SEC. The address of that site is http://www.sec.gov. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and other information filed by us with the SEC are available, without charge, on our Internet web site, http://www.brandywinerealty.com as soon as reasonably practicable after they are filed electronically with the SEC. Copies are also available, free of charge, upon written request to Investor Relations, Brandywine Realty Trust, 2929 Walnut Street, Suite 1700, Philadelphia, PA 19104.

**Item 1A.** Risk Factors

You should carefully consider these risk factors, together with all of the other information included in this Annual Report on Form 10-K, including our consolidated financial statements and the related notes thereto, before you decide whether to make an investment in our securities. The risks set out below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, prospects, financial condition, cash flows, liquidity, funds from operations, results of operations, share price, ability to service our indebtedness, and/or ability to make cash distributions to our security holders (including those necessary to maintain our REIT qualification). In such case, the value of our common shares and the trading price of our securities could decline, and you may lose all or a significant part of your investment. Some statements in the following risk factors constitute forward looking statements. Please refer to the explanation of the qualifications and limitations on forward-looking statements under “Forward-Looking Statements” of this Form 10-K.

Adverse economic and geopolitical conditions could have a material adverse effect on our results of operations, financial condition and our ability to pay distributions to our shareholders.

Our business is affected by global, national and local economic conditions. Our portfolio consists primarily of office buildings (as compared to real estate companies with portfolios of multiple asset classes). Our financial performance and the value of our real estate assets, and consequently the value of our securities, are subject to the risk that if our properties do not generate revenues sufficient to meet our operating expenses, including debt service and capital expenditures, our cash flow, results of operations, financial condition and ability to make distributions to our security holders will be adversely affected. The following factors, among others, may materially and adversely affect the income generated by our properties and our performance generally:

- adverse changes in international, national or local economic and demographic conditions;
- increased vacancies or our inability to rent space on favorable terms, including market pressures to offer tenants rent abatements, increased tenant improvement packages, early termination rights, below market rental rates or below-market renewal options;
- significant job losses in the financial and professional services industries may occur, which may decrease demand for office space, causing market rental rates and property values to be negatively impacted;
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changes in space utilization by our tenants due to technology, economic conditions and business culture may decrease demand for office space, causing market rental rates and property values to be negatively impacted;

- deterioration in the financial condition of our tenants may result in tenant defaults under leases, including due to bankruptcy, and adversely impact our ability to collect rents from our tenants;
- competition from other office and mixed-use properties , and increased supply of such properties;
- increases in non-discretionary operating costs, including insurance expense, utilities, real estate taxes, state and local taxes, labor shortages and heightened security costs may not be offset by increased market rental rates;
- reduced values of our properties would limit our ability to dispose of assets at attractive prices, limit our access to debt financing secured by our properties and reduce the availability of unsecured loans;
- changes in interest rates, reduced availability of financing and reduced liquidity in the capital markets may adversely affect our ability or the ability of potential buyers of properties and tenants of properties to obtain financing on favorable terms, or at all;
- one or more lenders under our unsecured revolving credit facility could refuse or be unable to fund their financing commitment to us and we may not be able to replace the financing commitment of any such lenders on favorable terms, or at all; and
- civil disturbances, earthquakes and other natural disasters, or terrorist acts or acts of war may result in uninsured or underinsured losses.

***Our performance is dependent upon the economic conditions of the markets in which our properties are located.***

Our results of operations will be significantly influenced by the economies and other conditions of the real estate markets in which we operate, particularly in Philadelphia, Pennsylvania, the suburbs of Philadelphia, Pennsylvania, Austin, Texas, the District of Columbia, Northern Virginia and Southern Maryland. Any adverse changes in economic conditions in any of these economies or real estate markets could negatively affect cash available for distribution and debt service. Our financial performance and ability to make distributions to our shareholders and pay debt service is particularly sensitive to the economic conditions in these markets. The local economic climate, which may be adversely impacted by business layoffs or downsizing, industry slowdowns, changing demographics and other factors, and local real estate conditions, such as demand for office space, operating expenses and real estate taxes, may affect revenues and the value of properties, including properties to be acquired or developed.

We face risks associated with the development of mixed-use commercial properties.

We operate, are currently developing, and may in the future develop, properties either alone or through real estate ventures with other persons that are known as “mixed-use” developments. In addition to the development of office space, mixed-use projects may also include space for residential, retail, hotel or other commercial purposes. As a result, if a development project consists of a non-office or non-retail use, we may seek to develop that component ourselves, sell the rights to that component to a third-party developer with experience in that use, or we may seek to partner with such a developer. If we do not sell the rights or partner with such a developer, or if we choose to develop the other component ourselves, we would be exposed not only to those risks typically associated with the development of commercial real estate generally, but also to specific risks associated with the development and ownership of non-office and non-retail real estate. In addition, even if we sell the rights to develop certain components or elect to participate in the development through a real estate venture, we may be exposed to the risks associated with the failure of the other party to complete the development as expected. These include the risk that the other party would default on its obligations, necessitating that we complete the other component ourselves (including providing any necessary financing). In the case of residential properties, these risks also include competition for prospective residents from other operators whose properties may be perceived to offer a better location or better amenities or whose rent may be perceived as a better value given the quality, location and amenities that the resident seeks. Because we have limited experience with residential properties, we expect to retain third parties to manage our residential properties. In the case of hotel properties, the risks also include increases in inflation and utilities that may not be offset by increases in room rates. We are also dependent on business and commercial travelers and tourism.  If we decide not to sell or participate in a real estate venture and instead hire a third party manager, we would be dependent on their key personnel to provide services on our behalf and we may not find a suitable replacement if the management agreement is terminated, or if key personnel leave or otherwise become unavailable to us.

We may suffer adverse consequences due to the financial difficulties, bankruptcy or insolvency of our tenants.

Periodically, our tenants experience financial difficulties, including bankruptcy, insolvency or a general downturn in their business, and these difficulties may have an adverse effect on our cash flow, results of operations, financial condition and ability to make distributions to our shareholders. We cannot assure you that any tenant that files for bankruptcy protection will continue to pay us rent. A bankruptcy filing by or relating to one of our tenants or a lease guarantor would bar efforts by us to collect pre-bankruptcy debts from that tenant or lease guarantor, or its property, unless we receive an order permitting us to do so from the bankruptcy court. In addition, we cannot evict a tenant solely because of bankruptcy. The bankruptcy of a tenant or lease guarantor could delay our efforts to collect past due balances under the relevant leases, and could ultimately preclude collection of these sums. If a lease is assumed by the tenant in bankruptcy, all pre-bankruptcy balances due under the lease must be paid to us in full. If, however, a lease is rejected by a tenant in bankruptcy, we would have only a general, unsecured claim for damages. Any such unsecured claim would only be paid to the extent that funds are available and only in the same percentage as is paid to all other holders of general, unsecured claims. Restrictions under the bankruptcy laws further limit the amount of any other claims that we can make if a lease is rejected. As a result, it is likely that we would recover substantially less than the

full value of the remaining rent during the term. See Item 7., "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors that May Influence Future Results of Operations - Tenant Credit Risk.*"

***An increase in interest rates would increase our interest costs on variable rate debt and could adversely impact our ability to refinance existing debt or sell assets on favorable terms or at all.***

Rising interest rates could limit our ability to refinance existing debt when it matures or significantly increase our future interest expense. From time to time, we enter into interest rate swap agreements and other interest rate hedging contracts. While these agreements are intended to lessen the impact of rising interest rates on us, they also expose us to the risk that the other parties to the agreements will not perform, we could incur significant costs associated with the settlement or termination of the agreements, the agreements will be unenforceable and the underlying transactions will fail to qualify as highly-effective cash flow hedges under the applicable accounting guidance. In addition, an increase in interest rates could decrease the amounts third parties are willing or able to pay for our assets, thereby limiting our ability to recycle capital and change our portfolio promptly in response to changes in economic or other conditions.

Our degree of leverage could limit our ability to obtain additional financing or affect the market price of our equity shares or debt securities.

Our organizational documents do not contain any limitation on the amount of indebtedness we may incur. We are subject to risks associated with debt financing, such as the insufficiency of cash flow to meet required debt service payment obligations and the inability to refinance existing indebtedness. If our debt cannot be paid, refinanced or extended at maturity, we may not be able to make distributions to shareholders at expected levels or at all. Furthermore, an increase in our interest expense could adversely affect our cash flow and ability to make distributions to shareholders. If we do not meet our debt service obligations, any properties securing such indebtedness could be foreclosed on, which would have a material adverse effect on our cash flow and ability to make distributions and, depending on the number of properties foreclosed on, could threaten our continued viability. Our degree of leverage could also make us more vulnerable to a downturn in business or the economy in general.

The terms and covenants relating to our indebtedness could adversely impact our economic performance.

Our credit facilities, term loans and the indenture governing our unsecured public debt securities contain (and any new or amended facility and term loans will contain) restrictions, requirements and other limitations on our ability to incur indebtedness, including total debt to asset ratios, secured debt to total asset ratios, debt service coverage ratios and minimum ratios of unencumbered assets to unsecured debt which we must maintain. Our ability to borrow under our credit facilities is subject to compliance with such financial and other covenants. In the event that we fail to satisfy these covenants, we would be in default under the credit facilities, the term loans and the indenture and may be required to repay such debt with capital from other sources. Under such circumstances, other sources of capital may not be available to us, or may be available only at unattractive terms. In addition, the mortgages on our properties, including mortgages encumbering our Real Estate Ventures, contain customary covenants such as those that limit our ability, without the prior consent of the lender, to further mortgage the applicable property or to discontinue insurance coverage. If we breach covenants in our secured debt agreements, the lenders can declare a default and take possession of the property securing the defaulted loan.

A downgrading of our debt could subject us to higher borrowing costs.

In the event that our unsecured debt is downgraded by Moody’s Investor Services or Standard & Poor’s from the current ratings, we would likely incur higher borrowing costs and the market prices of our common shares and debt securities might decline.

We may experience increased operating costs, which might reduce our profitability.

Our properties are subject to increases in operating expenses such as for insurance, real estate taxes, cleaning, electricity, heating, ventilation and air conditioning, administrative costs and other costs associated with security,

landscaping and repairs and maintenance of our properties. In general, our tenant leases allow us to pass through all or a portion of these costs to them. We cannot assure you, however, that tenants will actually bear the full burden of these increased costs, or that such increased costs will not lead them, or other prospective tenants, to seek office space elsewhere. If operating expenses increase, the availability of other comparable office space in our core geographic markets might limit our ability to increase rents; if operating expenses increase without a corresponding increase in revenues, our profitability could diminish and limit our ability to make distributions to shareholders.

Our investment in property development or redevelopment may be more costly or difficult to complete than we anticipate.

We intend to continue to develop properties where market conditions warrant such investment. Once made, these investments may not produce results in accordance with our expectations. Risks associated with our development and construction activities include:

- unavailability of favorable financing alternatives in the private and public debt markets;
- insufficient capital to pay development costs;
- limited experience in developing or redeveloping properties in certain of our geographic markets may lead us to incorrectly project development costs and returns on our investments;

- dependence on the financial, technology and professional services sector as part of our tenant base;
- construction costs exceeding original estimates due to rising interest rates, diminished availability of materials and labor, and increases in the costs of materials and labor;
- construction and lease-up delays resulting in increased debt service, fixed expenses and construction or renovation costs;
- expenditure of funds and devotion of management's time to projects that we do not complete;
- the unavailability or scarcity of utilities;
- occupancy rates and rents at newly completed properties may fluctuate depending on a number of factors, including market and economic conditions, resulting in lower than projected rental rates and a corresponding lower return on our investment;
- complications (including building moratoriums and anti-growth legislation) in obtaining necessary zoning, occupancy and other governmental permits; and
- increased use restrictions by local zoning or planning authorities limiting our ability to develop and impacting the size of developments.

See Item 7., "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors that May Influence Future Results of Operations - Development Risk.*"

Our development projects and third party property management business may subject us to certain liabilities.

We may hire and supervise third party contractors to provide construction, engineering and various other services for wholly owned development projects, development projects undertaken by real estate ventures in which we hold an equity interest and manage or properties we are managing on behalf of unaffiliated third parties. Certain of these contracts may be structured such that we are the principal rather than the agent. As a result, we may assume liabilities in the course of the project and be subjected to, or become liable for, claims for construction defects, negligent performance of work or other similar actions by third parties we have engaged. Adverse outcomes of disputes or litigation could negatively impact our business, results of operations and financial condition, particularly if we have not limited the extent of the damages to which we may be liable, or if our liabilities exceed the amounts of the insurance that we carry. Moreover, our tenants and third party customers may seek to hold us accountable for the actions of contractors because of our role even if we have technically disclaimed liability as a legal matter, in which case we may determine it necessary to participate in a financial settlement for purposes of preserving the tenant or customer relationship.

Acting as a principal may also mean that we pay a contractor before we have been reimbursed, which exposes us to additional risks of collection in the event of a bankruptcy or insolvency. Similarly, a contractor may file for bankruptcy or commit fraud before completing a project that we have funded in part or in full. As part of our project management business, we are responsible for managing various contractors required for a project, including general contractors, in order to ensure that the cost of a project does not exceed the contract amount and that the project is completed on time. In the event that one or more of the contractors involved does not, or cannot, perform as a result of bankruptcy or for another reason, we may be responsible for cost overruns, as well as the consequences of late delivery. In the event that we have not accurately estimated our own costs of providing services under guaranteed cost contracts, we may be exposed to losses on such contracts.

Our development projects may be dependent on strategic alliances with unaffiliated third parties.

We face challenges in managing our strategic alliances. As our development projects become more complex, the need for trust, collaboration, and equitable risk-sharing is essential to the success of these projects. The alliances we engage in are driven by the complementary skills and capabilities of our partners. Despite the diligence performed establishing these alliances, our objectives may not fully align with those of our partners throughout the development project or projects. Disagreements with one or more third parties with whom we partner in the development of one or more of the development components may restrict our ability to act exclusively in our own interests. In addition,

failure of one or more third parties with whom we partner to fulfill obligations to us could result in delays and increased costs to us associated with finding a suitable replacement partner. Increased costs could require us to revise or abandon our activities entirely with respect to one or more components of the project and, in such event, we would not recover, and would be required to write-off, costs we had capitalized in development.

We face risks associated with property acquisitions.

We have acquired in the past and intend to continue to pursue the acquisition of properties, including large portfolios that would increase our size and potentially alter our capital structure. The success of such transactions is subject to a number of factors, including the risks that:

- we may not be able to obtain financing for such acquisitions on favorable terms;
- acquired properties may fail to perform as expected;
- even if we enter into an acquisition agreement for a property, we may be unable to complete that acquisition after making a non-refundable deposit and incurring certain other acquisition-related costs;
- the actual costs of repositioning, redeveloping or maintaining acquired properties may be higher than our estimates;

- the acquired properties may be located in new markets where we may have limited knowledge and understanding of the local economy, an absence of business relationships in the area or unfamiliarity with local governmental and permitting procedures; and
- we may not be able to efficiently integrate acquired properties, particularly portfolios of properties, into our organization and manage new properties in a way that allows us to realize anticipated cost savings and synergies.

Acquired properties may subject us to known and unknown liabilities.

Properties that we acquire may be subject to known and unknown liabilities for which we would have no recourse, or only limited recourse, to the former owners of such properties or otherwise. As a result, if a liability were asserted against us based upon ownership of acquired property, we might be required to pay significant sums to settle it, which could adversely affect our financial results and cash flow. Unknown liabilities relating to acquired properties could include:

- liabilities for clean-up of pre-existing disclosed or undisclosed environmental contamination;
- claims by tenants, vendors, municipalities or other persons arising on account of actions or omissions of the former owners or occupants of the properties; and
- liabilities incurred in the ordinary course of business.

We may incur impairment charges.

We evaluate on a quarterly basis our real estate portfolios for indicators of impairment. Impairment charges reflect management's judgment of the probability and severity of the decline in the value of real estate assets and investments we own. These charges and provisions may be required in the future as a result of factors beyond our control, including, among other things, changes in our expected holding periods, changes in the economic environment and market conditions affecting the value of real property assets or natural or man-made disasters. If we are required to take impairment charges, our results of operations could be adversely impacted.

We have agreed not to sell certain of our properties and to maintain indebtedness subject to guarantees.

We acquired in the past and in the future may acquire properties or portfolios of properties through tax deferred contribution transactions in exchange for partnership interests in our Operating Partnership. This acquisition structure has the effect, among other factors, of reducing the amount of tax depreciation we can deduct over the tax life of the acquired properties, and typically requires that we agree to protect the contributors’ ability to defer recognition of taxable gain through restrictions on our ability to dispose of the acquired properties and/or the allocation of partnership debt to the contributors to maintain their tax bases. We have agreed not to sell some of our properties for varying periods of time, in transactions that would trigger taxable income to the former owners, and we may enter into similar arrangements as a part of future property acquisitions. These agreements generally provide that we may dispose of the subject properties only in transactions that qualify as tax-free exchanges under Section 1031 of the Internal Revenue Code or in other tax deferred transactions. Such transactions can be difficult to complete and can result in the property acquired in exchange for the disposed of property inheriting the tax attributes (including tax protection covenants) of the sold property. Violation of such tax protection agreements may impose significant costs on us. As a result, we are restricted with respect to decisions related to financing, encumbering, expanding or selling these properties. These restrictions on dispositions could limit our ability to sell an asset or pay down partnership debt during a specified time, or on terms, that would be favorable absent such restrictions.

We have also entered into agreements that provide prior owners of properties with the right to guarantee specific amounts of indebtedness and, in the event that the specific indebtedness that they guarantee is repaid or reduced, we would be required to provide substitute indebtedness for them to guarantee. These agreements may hinder actions that we may otherwise desire to take to repay or refinance guaranteed indebtedness because we would be required to make payments to the beneficiaries of such agreements if we violate these agreements.

We may be unable to renew leases or re-lease space as leases expire; certain leases may expire early.

If tenants do not renew their leases upon expiration, we may be unable to re-lease the space. Even if the tenants do renew their leases or if we can re-lease the space, the terms of renewal or re-leasing (including the cost of required renovations) may be less favorable than the current lease terms. Certain leases grant the tenants an early termination right upon payment of a termination penalty or if we fail to comply with certain material lease terms. Our inability to renew or release spaces and the early termination of certain leases could adversely affect our ability to make distributions to shareholders. See Item 7., "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors that May Influence Future Results of Operations - Tenant Rollover Risk.*"

Competition could limit our ability to lease residential rental properties or increase or maintain rents.

Through our recent development of the FMC Tower and our real estate venture at 1919 Market Street, our contributions from residential real estate have increased. These properties, which include luxury apartments and corporate suites located in Philadelphia, Pennsylvania, compete with other housing alternatives to attract residents, including rental apartments, condominiums and other single-family homes available for rent as well as new and existing condominiums and single-family homes for sale. Our competitors may offer a more desirable location or have leasing terms more favorable than those we can provide. In addition, our ability to

compete and generate favorable returns depends upon, among other factors, trends of the national and local economies, the financial condition and liquidity of current and prospective renters, availability and cost of capital, taxes and governmental regulations. Given the significant competition in the Philadelphia residential real estate market, we expect our competitors to seek to capitalize on opportunities to purchase undervalued properties in this market and convert them to productive uses. As the supply of rental properties continues to increase, the competition for tenants may intensify, which could adversely affect our operating results and cash flows.

We face significant competition from other real estate developers.

We compete with real estate developers, operators and institutions for tenants and acquisition and development opportunities. Some of these competitors may have significantly greater financial resources than we have. Such competition may reduce the number of suitable investment opportunities available to us, may interfere with our ability to attract and retain tenants and may increase vacancies, which could result in increased supply and lower market rental rates, reducing our bargaining leverage and adversely affect our ability to improve our operating leverage. In addition, some of our competitors may be willing (e.g., because their properties may have vacancy rates higher than those for our properties) to make space available at lower rental rates or with higher tenant concession percentages than available space in our properties. We cannot assure you that this competition will not adversely affect our cash flow and our ability to make distributions to shareholders.

Property ownership through real estate joint ventures may limit our ability to act exclusively in our interest.

We develop, acquire, and contribute properties in real estate ventures with other persons or entities when we believe circumstances warrant the use of such structures. As of December 31, 2018, we held ownership interests in ten unconsolidated real estate ventures for an aggregate investment balance of $169.1 million. We could become engaged in a dispute with one or more of our real estate venture partners that might affect our ability to operate a jointly-owned property. Moreover, our real estate venture partners may, at any time, have business, economic or other objectives that are inconsistent with our objectives, including objectives that relate to the appropriate timing and terms of any sale or refinancing of a property. In some instances, our real estate venture partners may have competing interests in our markets that could create conflicts of interest. If the objectives of our real estate venture partners or the lenders to our real estate ventures are inconsistent with our own objectives, we may not be able to act exclusively in our interests and the value of our investment in the real estate ventures may be affected.

Because real estate is illiquid, we may be unable to sell properties when in our best interest.

Real estate investments generally, and in particular large office and mixed use properties like those that we own, often cannot be sold quickly. The capitalization rates at which properties may be sold could be higher than historical rates, thereby reducing our potential proceeds from sale. Consequently, we may not be able to alter our portfolio promptly in response to changes in economic or other conditions. In addition, the Internal Revenue Code limits our ability, as a REIT, to sell properties that we have held for fewer than two years without potential adverse consequences to us. Furthermore, properties that we have developed and have owned for a significant period of time or that we acquired in exchange for partnership interests in the Operating Partnership often have a low tax basis. If we were to dispose of any of these properties in a taxable transaction, we may be required under provisions of the Internal Revenue Code applicable to REITs to distribute a significant amount of the taxable gain to our shareholders and this could, in turn, impact our cash flow. In some cases, tax protection agreements with third parties will prevent us from selling certain properties in a taxable transaction without incurring substantial costs. In addition, purchase options and rights of first refusal held by tenants or partners in real estate ventures may also limit our ability to sell certain properties. All of these factors reduce our ability to respond to changes in the performance of our investments and could adversely affect our cash flow and ability to make distributions to shareholders as well as the ability of someone to purchase us, even if a purchase were in our shareholders' best interests.

Mezzanine loan assets involve greater risks of loss than senior loans secured by income-producing properties.

We may from time to time originate mezzanine loans, which take the form of subordinated loans secured by second mortgages on the underlying property or loans secured by a pledge of the ownership interests of either the entity owning the property or a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. Mezzanine loans may involve a higher degree of risk than a senior mortgage secured by real property, because the security for the loan may lose all or substantially all of its value as a result of foreclosure by the senior lender and because it is in second position and there may not be adequate equity in the property. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to satisfy our mezzanine loan. If a borrower defaults on our mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the senior debt. As a result, we may not recover some of or all our investment. In addition, mezzanine loans may have higher loan-to-value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal.

Some potential losses are not covered by insurance.

We currently carry property insurance against all-risks of physical loss or damage (unless otherwise excluded in the policy) including time element and commercial general liability coverage on all of our properties. There are, however, types of losses, such as lease and

other contract claims, biological, radiological and nuclear hazards and acts of war that generally are not insured. We cannot assure you that we will be able to renew insurance coverage in an adequate amount or at reasonable prices. In addition, insurance companies may no longer offer coverage against certain types of losses, such as losses due to earthquakes, terrorist acts and mold, flood, or, if offered, these types of insurance may be prohibitively expensive. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenue from the property. In such an event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property. We cannot assure you that material losses in excess of insurance proceeds will not occur in the future. If any of our properties were to experience a catastrophic loss, it could seriously disrupt our operations, delay revenue and result in large expenses to repair or rebuild the property. Such events could adversely affect our cash flow and ability to make distributions to shareholders. If one or more of our insurance providers were to fail to pay a claim as a result of insolvency, bankruptcy or otherwise, the nonpayment of such claims could have an adverse effect on our financial condition and results of operations. In addition, if one or more of our insurance providers were to become subject to insolvency, bankruptcy or other proceedings and our insurance policies with the provider were terminated or cancelled as a result of those proceedings, we cannot guarantee that we would be able to find alternative coverage in adequate amounts or at reasonable prices. In such case, we could experience a lapse in any or adequate insurance coverage with respect to one or more properties and be exposed to potential losses relating to any claims that may arise during such period of lapsed or inadequate coverage.

In addition to property and casualty insurance, we use a combination of insurance products, some of which include deductibles and self-insured retention amounts, to provide risk mitigation for the potential liabilities associated with various liabilities, including workers' compensation, general contractors, directors and officers and employee health-care benefits. Liabilities associated with the risks that are retained by us are estimated, in part, by considering historical claims experience and actuarial assumptions. While we carry general liability and umbrella policies to mitigate such losses on our general liability risks, our results could be materially impacted by claims and other expenses related to such insurance plans if future occurrences and claims differ from these assumptions and historical trends or if employee health-care claims which we self-insure up to a set limit per employee (and which are insured above such self-insured retention amount) exceed our expectations or historical trends.

Terrorist attacks and other acts of violence or war may adversely impact our performance and may affect the markets on which our securities are traded.

Terrorist attacks against our properties, or against the United States or our interests, may negatively impact our operations and the value of our securities. Attacks or armed conflicts could result in increased operating costs; for example, it might cost more in the future for building security, property and casualty insurance, and property maintenance. As a result of terrorist activities and other market conditions, the cost of insurance coverage for our properties could also increase. In addition, our insurance policies may not recover all of our property replacement costs and lost revenue resulting from an attack. We might not be able to pass through the increased costs associated with such increased security measures and insurance to our tenants, which could reduce our profitability and cash flow. Furthermore, any terrorist attacks or armed conflicts could result in increased volatility in or damage to the United States and worldwide financial markets and economy. Such adverse economic conditions could affect the ability of our tenants to pay rent and our cost of capital, which could have a negative impact on our results.

Our ability to make distributions is subject to various risks.

Historically, we have paid quarterly distributions to our shareholders. Our ability to make distributions in the future will depend upon:

- the operational and financial performance of our properties;
- capital expenditures with respect to existing, developed and newly acquired properties;
- 

general and administrative costs associated with our operation as a publicly-held REIT;
- the amount of, and the interest rates on, our debt;
- capital needs of our Real Estate Ventures; and
- the absence of significant expenditures relating to environmental and other regulatory matters.

Certain of these matters are beyond our control and any adverse changes could have a material adverse effect on our cash flow and our ability to make distributions to shareholders.

Changes in tax rates and regulatory requirements may adversely affect our cash flow and results of operations.

Because increases in income and service taxes are generally not passed through to tenants under leases, such increases may adversely affect our cash flow and ability to make expected distributions to shareholders. Our properties are also subject to various regulatory requirements, such as those relating to the environment, fire and safety. Our failure to comply with these requirements could result in the imposition of fines and damage awards and could result in a default under some of our tenant leases. Moreover, the costs to comply with any new or different regulations could adversely affect our cash flow and our ability to make distributions to shareholders. We cannot assure you that these requirements will not change or that newly imposed conditions will not require significant expenditures in order to be compliant.

***Potential liability for environmental contamination could result in substantial costs.***

Under various federal, state and local laws, ordinances and regulations, we may be liable for the costs to investigate and remove or remediate hazardous or toxic substances on or in our properties, often regardless of whether we know of or are responsible for the presence of these substances. These costs may be substantial. While we do maintain environmental insurance, we cannot be assured that our insurance coverage will be sufficient to protect us from all of the aforesaid remediation costs. Also, if hazardous or toxic substances are present on a property, or if we fail to adequately remediate such substances, our ability to sell or rent the property or to borrow using that property as collateral may be adversely affected.

Other laws and regulations govern indoor and outdoor air quality including those that can require the abatement or removal of asbestos-containing materials in the event of damage, demolition, renovation or remodeling and also govern emissions of and exposure to asbestos fibers in the air. The maintenance and removal of lead paint and certain electrical equipment containing polychlorinated biphenyls (PCBs) and underground storage tanks are also regulated by federal and state laws. We are also subject to risks associated with human exposure to chemical or biological contaminants such as molds, pollens, viruses and bacteria which, above certain levels, can be alleged to be connected to allergic or other health effects and symptoms in susceptible individuals. We could incur fines for environmental compliance and be held liable for the costs of remedial action with respect to the foregoing regulated substances or tanks or related claims arising out of environmental contamination or human exposure to contamination at or from our properties.

Additionally, we develop, manage, lease and/or operate various properties for third parties. Consequently, we may be considered to have been or to be an operator of these properties and, therefore, potentially liable for removal or remediation costs or other potential costs that could relate to hazardous or toxic substances.

We face possible risks associated with the physical effects of climate change.

The physical effects of climate change could have a material adverse effect on our properties, operations and business. For example, many of our properties are located along the East coast, particularly those in the central business districts of Philadelphia and Washington, DC. To the extent climate change causes variations in weather patterns, our markets could experience increases in storm intensity and rising sea-levels. Over time, these conditions could result in declining demand for office space in our buildings or our inability to operate the buildings at all. Climate change may also have indirect effects on our business by increasing the cost of (or making unavailable) property insurance on terms we find acceptable, increasing the cost of energy and increasing the cost of snow removal at our properties. While we maintain insurance coverage for flooding, we may not have adequate insurance to cover the associated costs of repair or reconstruction of sites for a major future event, lost revenue, including from new tenants that could have been added to our properties but for the event, or other costs to remediate the impact of a significant event. There can be no assurance that climate change will not have a material adverse effect on our properties, operations or business.

Data security breaches may cause damage to our business and reputation.

In the ordinary course of our business, we maintain sensitive data, including our proprietary business information and the information of our tenants and business partners, in our data centers and on our networks. The risk of a security breach or disruption, mainly through cyber-attack or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has generally increased in number, intensity and sophistication. Notwithstanding the security measures undertaken, our information technology may be vulnerable to attacks or breaches resulting in proprietary information being publicly disclosed, lost or stolen. There can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. Protected information, networks, systems and facilities remain vulnerable because the techniques used in such attempted security breaches evolve and may not be recognized or detected until launched against a target. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other

preventative measures.

Data and security breaches could:

- disrupt the proper functioning of our networks and systems and therefore our operations and/or those of our client tenants;
- result in misstated financial reports, violations of loan covenants, missed reporting deadlines, and/or missed permitting deadlines;
- result in our inability to properly monitor our compliance with the rules and regulations regarding our qualification as a REIT;
- result in the unauthorized access to, and destruction, loss, theft, misappropriation, or release of proprietary, confidential, sensitive, or otherwise valuable information of ours or others, which others could use to compete against us or for disruptive, destructive, or otherwise harmful purposes and outcomes;
- result in our inability to maintain the building systems relied upon by our client tenants for the efficient use of their leased space;
- require significant management attention and resources to remedy any damages that result;
- subject us to claims and lawsuits for breach of contract, damages, credits, penalties, or termination of leases or other agreements; and/or

- damage our reputation among our client tenants and investors generally.

While we maintain insurance coverage that may, subject to policy terms and conditions including deductibles, cover specific aspects of cyber risks, such insurance coverage may be insufficient to cover all losses.

Third parties to whom we outsource certain of our functions are also subject to the risks outlined above. We review and assess the cybersecurity controls of our third party service providers and vendors, as appropriate, and make changes to our business processes to manage these risks. Data breaches and/or the insolvency of such third parties and vendors may result in us incurring costs and may have other negative consequences.

Our use of social media presents risks.

The use of social media could cause us to suffer brand damage or unintended information disclosure. Negative posts or communications about us on a social networking website could damage our reputation. Further, employees or others may disclose non-public information regarding us or our business or otherwise make negative comments regarding us on social networking or other websites, which could adversely affect our business and results of operations. As social media evolves we will be presented with new risks and challenges.

We may become subject to litigation, which could have a material and adverse effect on our results of operations, financial condition, cash flow and our ability to pay distributions to our shareholders.

In the future we may become subject to material litigation, including claims relating to our operations, offerings, and otherwise in the ordinary course of business. Some of these claims may result in significant defense costs and potentially significant judgments against us, some of which are not, or cannot be, insured against. We generally intend to defend ourselves vigorously; however, we cannot be certain of the ultimate outcomes of any claims that may arise in the future. Resolution of these types of matters against us may result in our having to pay significant fines, judgments, or settlements, which, if uninsured, or if the fines, judgments, and settlements exceed insured levels, could materially and adversely impact our financial condition, results of operations, cash flow and ability to pay distributions to our shareholders.

Americans with Disabilities Act compliance could be costly.

The Americans with Disabilities Act of 1990, or the ADA, requires that all public accommodations and commercial facilities, including office buildings, meet certain federal requirements related to access and use by disabled persons. Compliance with ADA requirements could involve the removal of structural barriers from certain disabled persons' entrances which could adversely affect our financial condition and results of operations. Other federal, state and local laws may require modifications to or restrict further renovations of our properties with respect to such accesses. Noncompliance by us with the ADA or similar or related laws or regulations could result in the imposition on us of governmental fines or in awards of damages against us in favor of private litigants. In addition, changes to existing requirements or enactments of new requirements could require significant expenditures. Such costs may adversely affect our cash flow and ability to make distributions to shareholders.

Failure to qualify as a REIT would subject us to U.S. federal income tax which would reduce the cash available for distribution to our shareholders.

We operate our business to qualify to be taxed as a REIT for federal income tax purposes. We have not requested and do not plan to request a ruling from the IRS that we qualify as a REIT, and the statements in this Report are not binding on the IRS or any court. As a REIT, we generally will not be subject to federal income tax on the income that we distribute currently to our shareholders. Many of the REIT requirements, however, are highly technical and complex. The determination that we are a REIT requires an analysis of various factual matters and circumstances that may not be entirely within our control. For example, to qualify as a REIT, at least 95% of our gross income must come from specific passive sources, such as rent, that are itemized in the REIT tax laws. In addition, to qualify as a

REIT, we cannot own specified amounts of debt and equity securities of some issuers. We also are required to distribute to our shareholders with respect to each year at least 90% of our REIT taxable income (excluding net capital gains). The fact that we hold substantially all of our assets through the Operating Partnership and its subsidiaries and real estate ventures further complicates the application of the REIT requirements for us. Even a technical or inadvertent mistake could jeopardize our REIT status and, given the highly complex nature of the rules governing REITs and the ongoing importance of factual determinations, we cannot provide any assurance that we will continue to qualify as a REIT. Changes to rules governing corporate taxation, including REITs, were made by legislation commonly known as the Tax Cuts and Jobs Act (the "TCJA") and the Protecting Americans From Tax Hikes Act of 2015, signed into law on December 22, 2017 and December 18, 2015, respectively. Congress and the IRS might make further changes to the tax laws and regulations, and the courts might issue new rulings or interpretations of tax law, that make it more difficult, or impossible, for us to remain qualified as a REIT. If we fail to qualify as a REIT for federal income tax purposes and are able to avail ourselves of one or more of the statutory savings provisions in order to maintain our REIT status, we would nevertheless be required to pay penalty taxes of $50,000 or more for each such failure.

If we fail to qualify as a REIT for federal income tax purposes, and are unable to avail ourselves of certain savings provisions set forth in the Internal Revenue Code, we would be subject to federal income tax at regular corporate rates on all of our income. As a taxable corporation, we would not be allowed to take a deduction for distributions to shareholders in computing our taxable income or pass through long term capital gains to individual shareholders at favorable rates. For tax years beginning before January 1, 2018, we also could be subject to the federal alternative minimum tax and possibly increased state and local taxes. We would not be able to elect to be taxed as a REIT for four years following the year we first failed to qualify unless the IRS were to grant us relief under certain statutory provisions. If we failed to qualify as a REIT, we would have to pay significant income taxes, which would reduce our net earnings available for investment or distribution to our shareholders. This likely would have a significant adverse effect on our earnings and likely would adversely affect the value of our securities. In addition, we would no longer be required to pay any distributions to shareholders.

Failure of the Operating Partnership (or a subsidiary partnership or real estate venture) to be treated as a partnership would have serious adverse consequences to our shareholders.

If the IRS were to successfully challenge the tax status of the Operating Partnership or any of its subsidiary partnerships or real estate ventures for federal income tax purposes, the Operating Partnership or the affected subsidiary partnership or real estate venture would be taxable as a corporation. In such event, we would cease to qualify as a REIT and the imposition of a corporate tax on the Operating Partnership, subsidiary partnership or real estate venture would reduce the amount of cash available for distribution from the Operating Partnership to us and ultimately to our shareholders.

To maintain our REIT status, we may be forced to borrow funds on a short term basis during unfavorable market conditions.

As a REIT, we are subject to certain distribution requirements, including the requirement to distribute 90% of our REIT taxable income. That may result in our having to make distributions at a disadvantageous time or to borrow funds at unfavorable rates. Compliance with this requirement may hinder our ability to operate solely on the basis of maximizing profits.

We will pay some taxes even if we qualify as a REIT, which will reduce the cash available for distribution to our shareholders.

Even if we qualify as a REIT for federal income tax purposes, we will be required to pay certain federal, state and local taxes on our income and property. For example, we will be subject to income tax to the extent we distribute less than 100% of our REIT taxable income, including capital gains. Additionally, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which dividends paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years. Moreover, if we have net income from “prohibited transactions,” that income will be subject to a 100% penalty tax. In general, prohibited transactions are sales or other dispositions of property held primarily for sale to customers in the ordinary course of business. The determination as to whether a particular sale or series of sales is/are a prohibited transaction depends on the facts and circumstances related to that sale. We cannot guarantee that sales of our properties would not be prohibited transactions unless we comply with certain statutory safe-harbor provisions.

In addition, any net taxable income earned directly by our taxable REIT subsidiaries, or through entities that are disregarded for federal income tax purposes as entities separate from our taxable REIT subsidiaries, will be subject to federal and possibly state corporate income tax. In this regard, several provisions of the laws applicable to REITs and their subsidiaries ensure that a taxable REIT subsidiary will be subject to an appropriate level of federal income taxation. For example, a taxable REIT subsidiary is limited in its ability to deduct certain interest payments made to an affiliated REIT. In addition, the REIT has to pay a 100% penalty tax on some payments that it receives or on some deductions taken by a taxable REIT subsidiary if the economic arrangements between the REIT, the REIT’s customers,

and the taxable REIT subsidiary are not comparable to similar arrangements between unrelated parties. Finally, some state and local jurisdictions may tax some of our income even though as a REIT we are not subject to federal income tax on that income because not all states and localities follow the federal income tax treatment of REITs. To the extent that we and our affiliates are required to pay federal, state and local taxes, we will have less cash available for distributions to our shareholders.

We face possible federal, state and local tax audits.

Because we are organized and qualify as a REIT, we are generally not subject to federal income taxes, but are subject to certain state and local taxes. Certain entities through which we own real estate have undergone tax audits. There can be no assurance that future audits will not have a material adverse effect on our results of operations.

Legislation that modifies the rules applicable to partnership tax audits may affect us.

The Bipartisan Budget Act of 2015, effective for taxable years beginning after December 31, 2017, requires our operating partnership and any subsidiary partnership to pay the hypothetical increase in partner-level taxes (including interest and penalties) resulting from an adjustment of partnership tax items on audit or in other tax proceedings, unless the partnership elects an alternative method under which the taxes resulting from the adjustment (and interest and penalties) are assessed at the partner level. Many uncertainties remain as to the application of these rules, including the application of the alternative method to partners that are REITs, and the impact they

will have on us. However, it is possible, that partnerships in which we invest may be subject to U.S. federal income tax, interest and penalties in the event of a U.S. federal income tax audit as a result of these law changes.

Legislative or regulatory tax changes related to REIT's could materially and adversely affect our business.

At any time, the federal income tax laws or regulations governing REITs or the other administrative interpretations of those laws or regulations may be changed, possibly with retroactive effect. We cannot predict if or when any new federal income tax law, regulation or administrative interpretation, or any amendment to any existing federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective or whether any such law, regulation or interpretation may take effect retroactively. We and our shareholders could be adversely affected by any such change in, or any new, federal income tax law, regulation or administrative interpretation.

The Tax Cuts and Jobs Act of 2017 may adversely affect our business.

The TCJA significantly revised the U.S. corporate income tax by, among other things, lowering corporate income tax rates and implementing a partial limitation on the deduction for business interest expense. The enactment of the TCJA has not significantly impacted our current tax position and/or REIT status and we estimate, based on currently available information, that it will not result in a significant impact in the future. The impact of the TCJA may differ from our initial assessment, due to, among other things, changes in interpretations, assumptions made and guidance that may be issued and actions we may take as a result of the TCJA. Further, certain changes in law pursuant to the TCJA could reduce the relative competitive advantage of operating as a REIT as compared with operating as a C corporation, including by:

- reducing the rate of tax applicable to individuals and C corporations, which could reduce the relative attractiveness of the generally single level of taxation on REIT distributions
- permitting immediate expensing of capital expenditures, which could likewise reduce the relative attractiveness of the REIT taxation regime and
- limiting the deductibility of interest expense, which could increase the distribution requirement of REITs.

Most of the changes applicable to individuals are temporary and apply only to taxable years beginning after December 31, 2017 and before January 1, 2026. The TCJA makes numerous large and small changes to the tax rules that do not affect REITs directly but may affect our shareholders and may indirectly affect us.

Shareholders are urged to consult with their tax advisors with respect to the TCJA and any other regulatory or administrative developments and proposals and their potential effect on investment in our capital stock.

If a transaction intended to qualify as a Section 1031 Exchange is later determined to be taxable, or if we are unable to identify and complete the acquisition of suitable replacement property to effect a Section 1031 Exchange, we may face adverse consequences.

From time to time we seek to dispose of properties in transactions that are intended to qualify as tax-deferred "like kind exchanges" under Section 1031 of the Internal Revenue Code of 1986, as amended (a "Section 1031 Exchange"). It is possible that the qualification of a transaction as a Section 1031 Exchange could be successfully challenged and determined to be currently taxable. It is also possible that we are unable to identify and complete the acquisition of suitable replacement property to effect a Section 1031 Exchange. In any such case, our taxable income and earnings and profits would increase. This could increase the dividend income to our shareholders by reducing any return of capital they received. In some circumstances, we may be required to pay additional dividends or, in lieu of that, corporate income tax, possibly including interest and penalties. As a result, we may be required to borrow funds in order to pay additional dividends or taxes, and the payment of such taxes could cause us to have less cash available to distribute to our shareholders. In addition, if a Section 1031 Exchange were later to be determined to be taxable, we may be required to amend our tax returns for the applicable year in question, including any information reports we sent our shareholders. Moreover, it is possible that legislation could be enacted that could modify or repeal the laws

with respect to Section 1031 Exchanges, which could make it more difficult or not possible for us to dispose of properties on a tax deferred basis.

Further, as a result of changes made by the TCJA, like-kind exchanges are only permitted with respect to real property. The changes generally apply to exchanges completed after December 31, 2017, unless the property was disposed of or received in the exchange on or before such date. If a material amount of personal property is associated with the real property that we have disposed of in a like-kind exchange, the like-kind exchange provisions will be less beneficial than under prior law.

Failure to obtain the tax benefits and remain compliant within Qualified Opportunity Zones and Keystone Opportunity Zones may have adverse consequences.

Certain of our Properties have the benefit of governmental tax incentives for development in areas and neighborhoods which have not historically seen robust commercial development. These incentives typically have specific sunset provisions and may be subject to

governmental discretion in the eligibility or award of the applicable incentives. We invest heavily in Qualified Opportunity Zones as part of the federal program and Keystone Opportunity Zones in Pennsylvania due to the related tax benefits. The expiration of these incentive programs or the inability of potential tenants or users to be eligible for or to obtain governmental approval of the incentives may have an adverse effect on the value of our Properties and on our cash flow and net income, and may result in impairment charges. In addition, the failure to remain compliant with such programs may result in significant tax burdens.

Competition for skilled personnel could increase labor costs.

We compete with various other companies in attracting and retaining qualified and skilled personnel. We depend on our ability to attract and retain skilled management personnel who are responsible for the day-to-day operations of our company. Competitive pressures may require that we enhance our pay and benefits package to compete effectively for such personnel. We may not be able to offset such added costs by increasing the rates we charge our tenants. If there is an increase in these costs or if we fail to attract and retain qualified and skilled personnel, our business and operating results could be harmed.

We are dependent upon our key personnel.

We are dependent upon our key personnel, particularly Gerard H. Sweeney - President and Chief Executive Officer, Thomas Wirth - Executive Vice President and Chief Financial Officer, Jeffrey DeVuono - Executive Vice President and Senior Managing Director, William Redd – Executive Vice President and Senior Managing Director and George Johnstone - Executive Vice President, Operations. Among the reasons that Messrs. Sweeney, Wirth, DuVuono, Redd and Johnstone are important to our success is that each has a favorable reputation, which attracts business and investment opportunities and assists us in negotiations with lenders, joint venture partners and other investors. If we lost their services, our relationships with lenders, potential tenants and industry personnel could be affected. We are dependent on our other executive officers for strategic business direction and real estate experience. Loss of their services could adversely affect our operations.

Certain limitations will exist with respect to a third party's ability to acquire us or effectuate a change in control.

Limitations imposed to protect our REIT status. In order to protect us against the loss of our REIT status, our Declaration of Trust limits any shareholder from owning more than 9.8% in value of our outstanding shares, although we have granted in the past, and may continue to grant in the future certain waivers of this limitation to certain shareholders under certain conditions. The ownership limit may have the effect of precluding acquisition of control of us. If anyone acquires shares in excess of the ownership limit, we may:

- consider the transfer to be null and void;
- not reflect the transaction on our books;
- institute legal action to stop the transaction;
- not pay dividends or other distributions with respect to those shares;
- not recognize any voting rights for those shares; and
- consider the shares held in trust for the benefit of a person to whom such shares may be transferred.

Limitation due to our ability to issue preferred shares. Our Declaration of Trust authorizes our Board of Trustees to cause us to issue preferred shares, without limitation as to amount and without shareholder consent. Our Board of Trustees is able to establish the preferences and rights of any preferred shares issued and these shares could have the effect of delaying or preventing someone from taking control of us, even if a change in control were in our shareholders' best interests.

Limitation imposed by the Maryland Business Combination Law. On May 23, 2018, our shareholders approved our election not to be governed by the Maryland Business Combination Act, or the MBC Act. Consistent with Maryland law, we will cease to be governed by the MBC Act, effective 18 months after the shareholder vote, or November 23,

2019. Until then, we remain subject to the MBC Act. The MBC Act, subject to limitations, prohibits certain business combinations between a Maryland real estate investment trust and an "interested stockholder" or an affiliate of any interested stockholder for five years following the most recent date on which the person or entity became an interested stockholder, and thereafter imposes two supermajority voting requirements and special appraisal rights for these combinations. The MBC Act defines an "interested stockholder" generally as any person who beneficially owns 10% or more of the voting power of the subject company's outstanding voting shares or is an affiliate or associate of the subject company and was the beneficial owner of 10% or more of the voting power of the subject company's outstanding shares at any time within the two-year period immediately prior to the date in question.

Maryland Control Share Acquisition Act. Maryland law provides that "control shares" of a REIT acquired in a "control share acquisition" shall have no voting rights except to the extent approved by a vote of two-thirds of the vote eligible to be cast on the matter under the Maryland Control Share Acquisition Act. Shares construed as "control shares" means that, if aggregated with all other shares previously acquired by the acquirer or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer to exercise voting power in electing trustees within one of the following ranges of voting power: one-tenth or more but less than one-third, one-third or more but less than a majority or a majority or more of all voting power. Control shares do not include shares the acquiring person is then entitled to vote as a result of

having previously obtained shareholder approval. A "control share acquisition" means the acquisition of control shares, subject to certain exceptions. If voting rights or control shares acquired in a control share acquisition are not approved at a shareholder's meeting, then subject to certain conditions and limitations the issuer may redeem any or all of the control shares for fair value. If voting rights of such control shares are approved at a shareholder's meeting and the acquirer becomes entitled to vote a majority of the shares entitled to vote, all other shareholders may exercise appraisal rights. Any control shares acquired in a control share acquisition that are not exempt under our Bylaws are subject to the Maryland Control Share Acquisition Act. Our Bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by any person of our shares. We cannot assure you that this provision will not be repealed, amended or eliminated by us at any time in the future.

Advance Notice Provisions for Shareholder Nominations and Proposals. Our bylaws require advance notice for shareholders to nominate persons for election as trustees at, or to bring other business before, any meeting of our shareholders. This bylaw provision limits the ability of shareholders to make nominations of persons for election as trustees or to introduce other proposals unless we are notified in a timely manner prior to the meeting.

Many factors can have an adverse effect on the market value of our securities.

A number of factors might adversely affect the price of our securities, many of which are beyond our control. These factors include:

- increases in market interest rates, relative to the dividend yield on our securities. If market interest rates go up, prospective purchasers of our securities may require a higher yield. Higher market interest rates would not, however, result in more funds for us to distribute and, to the contrary, would likely increase our borrowing costs and potentially decrease funds available for distribution. Thus, higher market interest rates could cause the market price of our common shares to go down;
- anticipated benefit of an investment in our securities as compared to investment in securities of companies in other industries (including benefits associated with the tax treatment of dividends and distributions);
- perception by market professionals of REITs generally and REITs comparable to us in particular;
- level of institutional investor interest in our securities;
- relatively low trading volumes in securities of REITs;
- our results of operations and financial condition; and
- investor confidence in the stock market generally.

The market value of our common shares is based primarily upon the market's perception of our growth potential and our current and potential future earnings and cash distributions. Consequently, our common shares may trade at prices that are higher or lower than our net asset value per common share. If our future earnings or cash distributions are less than expected, it is likely that the market price of our common shares will diminish.

Additional issuances of equity securities may be dilutive to shareholders.

The interests of our shareholders could be diluted if we issue additional equity securities to finance future developments or acquisitions or to repay indebtedness. Our Board of Trustees may authorize the issuance of additional equity securities without shareholder approval. In addition, we have in place a continuous offering program, which allows us to issue shares in at the market offerings. Our ability to execute our business strategy depends upon our access to an appropriate blend of debt financing, including unsecured lines of credit and other forms of secured and unsecured debt, and equity financing, including the issuance of common and preferred equity.

The issuance of preferred securities may adversely affect the rights of holders of our common shares.

Because our Board of Trustees has the power to establish the preferences and rights of each class or series of preferred shares, we may afford the holders in any series or class of preferred shares preferences, distributions, powers and rights, voting or otherwise, senior to the rights of holders of common shares. Our Board of Trustees also has the power

to establish the preferences and rights of each class or series of units in the Operating Partnership, and may afford the holders in any series or class of preferred units preferences, distributions, powers and rights, voting or otherwise, senior to the rights of holders of common units.



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***If we fail to maintain an effective system of integrated internal control over financial reporting, we may not be able to accurately report our financial results.***

An effective system of internal control over financial reporting is necessary for us to provide reliable financial reports, prevent fraud and operate successfully as a public company. As part of our ongoing monitoring of internal controls, we may discover material weaknesses or significant deficiencies in our internal controls that require remediation. If we discover such weaknesses, we will make efforts to improve our internal controls in a timely manner. Any system of internal controls, however well designed and operated, is based in part on certain assumptions and can only provide reasonable, not absolute, assurance that the objectives of the system are met. Any failure to maintain effective internal controls, or implement any necessary improvements in a timely manner, could have a materially adverse effect on our business and operating results, or cause us not to meet our reporting obligations, which could affect our ability to remain listed with the New York Stock Exchange. Ineffective internal controls could also cause investors to lose confidence in our reported financial information, which would likely have a negative effect on the trading price of our securities.

Changes in accounting pronouncements could adversely affect our operating results, in addition to the reported financial performance of our tenants.

Accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Uncertainties posed by various initiatives of accounting standard-setting by the Financial Accounting Standards Board and the Securities and Exchange Commission, which create and interpret applicable accounting standards for U.S. companies, may change the financial accounting and reporting standards or their interpretation and application of these standards that govern the preparation of our financial statements.

These changes could have a material effect on our reported financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in potentially material restatements of prior period financial statements. Similarly, these changes could have a material impact on our tenants' reported financial condition or results of operations or could affect our tenants' preferences regarding leasing real estate.

**Item 1B.** Unresolved Staff Comments

None.

**Item 2.** Properties
Property Acquisitions

On December 19, 2018, we acquired an office property containing 120,559 rentable square feet located at 4516 Seton Center Parkway in Austin, Texas, known as Quarry Lake II, for a gross purchase price of $39.5 million. We capitalized $0.1 million of acquisition-related costs and funded the acquisition with a borrowing of $39.0 million from our unsecured credit facility.

On December 11, 2018, we acquired from DRA, its 50% ownership interest in the DRA Austin Venture for an aggregate purchase price of $535.1 million. The DRA Austin Venture owned twelve office properties containing an aggregate 1,570,123 square feet located in Austin, Texas. The aggregate purchase price includes the carrying amount of our investment in DRA Austin Venture of $14.6 million. At settlement, we assumed $115.5 million of mortgage debt and received a credit at settlement of $130.7 million for a note receivable provided to the DRA Austin Venture on November 1, 2018. This note receivable was used to repay one of DRA Austin Venture's mortgage loans prior to the December 11, 2018 acquisition date. We also obtained working capital of $24.9 million. Subsequent to receiving cash proceeds of $28.3 million for our promoted interest in the DRA Austin Venture and recognizing a remeasurement gain of $103.8 million, reflected in the caption "Net gain on real estate venture transactions" in our consolidated statements of operations, we funded the acquisition with an aggregate cash payment of $117.3 million. Additionally, the assumed mortgage debt of $115.5 million was repaid at settlement. Both cash payments were funded through borrowings under our unsecured credit facility. We recognized a $28.3 million gain on our promoted interest in the DRA Austin Venture, reflected in the caption "Gain on promoted interest in unconsolidated real estate venture" in our consolidated statements of operations. T

On June 29, 2018, we acquired, through a 99-year ground lease, the leasehold interest in a one-acre land parcel, located at 3025 JFK Boulevard, in Philadelphia, Pennsylvania. We prepaid $15.0 million of ground lease rent and capitalized $0.3 million of costs related to entering the lease. Additionally, the ground lease required us to pay $5.6 million for a leasehold valuation credit, which can be applied to increase the density of the projects subject to the Schuylkill Yards Project master development agreement.

On March 22, 2018, we acquired, through a 99-year ground lease, the leasehold interest in a one-acre land parcel, located at 3001-3003 JFK Boulevard, in Philadelphia, Pennsylvania. We prepaid $24.6 million of ground lease rent and capitalized $0.3 million of costs related to entering the lease.

3025 JFK Boulevard and 3001-3003 JFK Boulevard are located within the Schuylkill Yards Project site and represent an additional development site in the University City sub-market of Philadelphia, Pennsylvania. See Item 1., *"Developments – Other Development Activities"* for additional information.

On January 5, 2018, we acquired, from our then partner in each of the Four Tower Bridge real estate venture and the Seven Tower Bridge real estate venture, the partner's 35% ownership interest in the Four Tower Bridge real estate venture in exchange for our 20% ownership interest in the Seven Tower Bridge real estate venture. As a result of this non-monetary exchange, we acquired 100% of the Four Tower Bridge real estate venture, which owns an office property containing 86,021 square feet, in Conshohocken, Pennsylvania, encumbered with $9.7 million in debt. Our acquisition of the 35% ownership interest in Four Tower Bridge resulted in the consolidation of the property. As such, we capitalized $0.1 million of acquisition related costs and allocated the acquisition value, consisting of the fair value

of $23.6 million and the acquisition related costs, to tangible and intangible assets.



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**Developments and Redevelopments**

We placed into service the following redevelopment properties during the year ended December 31, 2018 (dollars in thousands):

| Month Placed In Service | Activity Type | Property/Portfolio Name | Location | Number of Buildings | Square Footage/Units | Budgeted Costs | Costs Incurred (a) | |
|---|---|---|---|---|---|---|---|---|
| Dec-18 | Redevelopment | 500 North Gulph Road | King Of Prussia, PA | 1 | 101,000 | $ 29,700 | $ 27,100 | (b) |
| Oct-18 | Redevelopment | 11501 Burnet Road - Building 6 (Broadmoor-Building 6) | Austin, TX | 1 | 144,000 | 34,500 | 33,700 | (c) |
| | | Total | | 2 | 245,000 | $ 64,200 | $ 60,800 | |

(a) Costs incurred were below budget primarily due to construction cost savings.
(b) Total project costs include $4.5 million of existing property basis.
(c) Total project costs include $18.5 million of existing property basis.

As of December 31, 2018, the following development and redevelopment projects remain under construction in progress and we were proceeding on the following activity (dollars in thousands):

| Construction Commencement Date | Expected Completion | Activity Type | Property/Portfolio Name | Location | Number of Buildings | Square Footage/ Units | Estimated Costs | | Amount Funded |
|---|---|---|---|---|---|---|---|---|---|
| Q4 2017 | Q1 2019 | Development | Four Points Building 3 | Austin, TX | 1 | 165,000 | $47,500 | (a) | $35,900 |
| Q2 2019 | Q2 2020 | Redevelopment | The Bulletin Building | Philadelphia, PA | 1 | 283,000 | 83,100 | (b) | 44,300 |
| Q2 2018 | Q1 2019 | Redevelopment | 426 W. Lancaster Avenue | Devon, PA | 1 | 56,000 | 14,900 | (c) | 8,900 |
| | | Total | | | 3 | 504,000 | $ 145,500 | | $ 89,100 |

(a) The project is pre-leased to a single tenant. Total estimated costs include $2.1 million of land basis existing at project inception.
(b) Total project costs include $37.8 million of building basis, representing the acquisition cost. The amount funded, as of December 31, 2018, includes $1.2 million related to an $8.0 million funding commitment required through the ground lease. See Item 2., *"Liquidity and Capital Resources – Contractual Obligations"* for further information regarding this commitment.
(c) The property was vacated during the third quarter of 2017. The building is currently under renovation. Total project costs include $4.9 million of existing property basis.

In addition to the projects above, as of December 31, 2018, we were proceeding through the development project at Schuylkill Yards in Philadelphia, Pennsylvania and at 4040 Wilson Venture, the unconsolidated real estate venture in which we own a 50% interest, constructing a mixed-use building in Arlington, Virginia. See Item 1., *"Business – Developments,"* for further information.

**Property Sales**

We sold the following properties during the year ended December 31, 2018 (dollars in thousands):

| Disposition Date | Property/Portfolio Name | Location | Type | Number of Properties | Rentable Square Feet | Sales Price | Net Proceeds on Sale | Ga |
|---|---|---|---|---|---|---|---|---|
| December 21, 2018 | Subaru National Training Center | Camden, NJ | Mixed-use | 1 | 83,000 | $45,300 | $44,877 | $2 |
| December 20, 2018 | Rockpoint Portfolio | Herndon, VA | Office | 8 | 1,293,197 | 312,000 | 262,442 | 3 |
| June 21, 2018 | 20 East Clementon Road | Gibbsboro, NJ | Office | 1 | 38,260 | 2,000 | 1,850 | ( |
| Total Dispositions | | | | 10 | 1,414,457 | $359,300 | $309,169 | $2 |

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

(b) During the second quarter of 2018, Subaru exercised its purchase option under the lease agreement for the Subaru NSTC and the sale occurred during the fourth quarter of 2018. See Note 2, "*Summary of Significant Accounting Policies*," to our Consolidated Financial Statements for further discussion of the lease agreement and related revenue recognition.

(c) On December 20, 2018, we contributed a portfolio of eight properties containing an aggregate of 1,293,197 square feet, located in our Metropolitan Washington, D.C. segment, known as the Rockpoint Portfolio, to the Herndon Innovation Center Metro Portfolio Venture, LLC for a gross sales price of $312.0 million. We and our partner own 15% and 85% interests in the Herndon Innovation Center Metro Portfolio Venture, LLC, respectively. The Herndon Innovation Center Metro Portfolio Venture, LLC funded the acquisition with $265.2 million of cash, which was distributed to us at closing. After funding our share of closing costs and working capital contributions of $2.2 million and $0.6 million, respectively, we received $262.4 million of cash proceeds at settlement. We recorded an impairment charge of $56.9 million for the Rockpoint Portfolio during the third quarter of 2018. We recorded a $0.4 million gain on sale, which represents an adjustment to estimated closing costs used to determine the impairment charge in the third quarter of 2018. For further information related to this transaction, see the "*Herndon Innovation Center Metro Portfolio Venture, LLC*" section in Note 4, "*Investment in Unconsolidated Real Estate Ventures*," to our Consolidated Financial Statements.

We sold the following land parcels during the year ended December 31, 2018 (dollars in thousands):

| Disposition Date | Property/Portfolio Name | Location | Number of Parcels | Acres | Sales Price | Net Proceeds on Sale | Gain on Sale | |
|---|---|---|---|---|---|---|---|---|
| March 16, 2018 | Garza Ranch - Office | Austin, TX | 1 | 6.6 | $14,571 | $ 14,509 | $1,515 | (a) |
| January 10, 2018 | Westpark Land | Durham, NC | 1 | 13.1 | 485 | 412 | 22 | |
| Total Dispositions | | | 2 | 19.7 | $15,056 | $ 14,921 | $1,537 | |

(a) As of March 31, 2018, we had not transferred control to the buyer of this land parcel, or two other parcels at this site which were sold during 2017, because of a completion guarantee which required us, 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 our consolidated balance sheets. During the three months ended June 30, 2018, the infrastructure improvements were substantially completed, at which time we transferred control of the land parcels. As a result, we then recognized the sales of the three land parcels during 2018 and recorded an aggregate $2.8 million gain. During the quarter ended December 31, 2018, we recorded an additional $0.2 million gain. See Note 2, *"Summary of Significant Accounting Policies,"* to our Consolidated Financial Statements for further discussion of the infrastructure improvements and related revenue recognition.

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

Held for Sale

| | Held for Sale Properties December 31, 2018 | | |
|---|---|---|---|
| | Pennsylvania Suburbs - Land (a) | Other - Land (a) | Total |
| ASSETS HELD FOR SALE | | | |
| Real estate investments: | | | |
| Land inventory | $4,254 | $7,345 | $11,599 |
| Total real estate investments | 4,254 | 7,345 | 11,599 |
| Total assets held for sale, net | $4,254 | $7,345 | $11,599 |

(a)

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

Properties

As of December 31, 2018, we owned 97 properties that contain an aggregate of approximately 16.8 million net rentable square feet and consist of 88 office properties, four mixed-use properties, one retail property (93 Core Properties), one development property and three redevelopment properties (collectively, the Properties). The properties are located in or near Philadelphia, Pennsylvania; Austin, Texas; Metropolitan Washington, D.C.; Southern New Jersey; and Wilmington, Delaware. As of December 31, 2018, the properties, excluding properties under development and redevelopment, were approximately 93.3% occupied by 796 tenants and had an average age of approximately 22.8 years. The office properties are a combination of urban and transit-oriented suburban office buildings containing an average of approximately 177,377 net rentable square feet. The mixed-use properties accommodate a variety of tenant uses, including retail and residential apartment units and a hotel. We carry comprehensive liability, fire, extended coverage and rental loss insurance covering all of the properties, with policy specifications and insured limits that we believe are adequate.

The following table sets forth information with respect to our Core Properties, including properties classified as held for sale, if applicable, at December 31, 2018:

| | | Location | State | Year Built/ Renovated | Net Rentable Square Feet | Percentage Leased as of December 31, 2018 (a) | | Total Base Rent for the Twelve Months Ended December 31, 2018 (b) (000's) | Average Annualized Rental Rate as of December 31, 2018 (c) |
|---|---|---|---|---|---|---|---|---|---|
| PENNSYLVANIA SUBURBS SEGMENT | | | | | | | | | |
| "SAME STORE PROPERTY PORTFOLIO" | | | | | | | | | |
| 150 Radnor Chester Road | | Radnor | PA | 1983 | 340,380 | 79.6 | % | $ 10,923 | $ 37.62 |
| 201 King of Prussia Road | | Radnor | PA | 2001 | 251,434 | 90.7 | % | 6,802 | 35.01 |
| 555 Lancaster Avenue | | Radnor | PA | 1973/2006 | 241,687 | 98.3 | % | 6,584 | 30.32 |
| 401 Plymouth Road | | Plymouth Meeting | PA | 2001 | 204,186 | 93.6 | % | 6,006 | 34.62 |
| One Radnor Corporate Center | | Radnor | PA | 1998 | 201,874 | 88.4 | % | 4,777 | 31.89 |
| 101 West Elm Street | | W. Conshohocken | PA | 1999 | 173,827 | 100.0 | % | 4,792 | 27.36 |
| Five Radnor Corporate Center | | Radnor | PA | 1998 | 164,505 | 73.5 | % | 3,132 | 36.37 |
| Four Radnor Corporate Center | | Radnor | PA | 1995 | 164,464 | 100.0 | % | 4,579 | 32.94 |
| 660 West Germantown Pike | | Plymouth Meeting | PA | 1987/2014 | 161,521 | 100.0 | % | 4,936 | 33.32 |
| 640 Freedom Business Center | (d) | King Of Prussia | PA | 1991 | 132,000 | 100.0 | % | 2,654 | 25.49 |
| 52 Swedesford Square | | East Whiteland Twp. | PA | 1988 | 131,077 | 100.0 | % | 3,164 | 29.61 |
| 400 Berwyn Park | | Berwyn | PA | 1999 | 124,182 | 98.0 | % | 3,088 | 30.21 |
| Metroplex (4000 Chemical Road) | | Plymouth Meeting | PA | 2007 | 120,877 | 85.7 | % | 3,107 | 33.56 |
| Three Radnor Corporate Center | | Radnor | PA | 1998 | 119,087 | 85.4 | % | 3,248 | 35.74 |
| Six Tower Bridge (181 Washington Street) | | Conshohocken | PA | 1999 | 116,174 | 96.5 | % | 3,249 | 28.08 |
| 300 Berwyn Park | | Berwyn | PA | 1989 | 107,702 | 83.7 | % | 1,796 | 25.42 |
| 1 West Elm Street | | Conshohocken | PA | 1999 | 97,737 | 100.0 | % | 2,707 | 29.29 |
| Two Radnor Corporate Center | | Radnor | PA | 1998 | 97,576 | 100.0 | % | 3,021 | 35.72 |
| 620 West Germantown Pike | | Plymouth Meeting | PA | 1990 | 90,183 | 90.9 | % | 1,870 | 29.31 |
| 610 West Germantown Pike | | Plymouth Meeting | PA | 1987 | 90,088 | 84.0 | % | 1,846 | 27.23 |
| 630 West Germantown Pike | | Plymouth Meeting | PA | 1988 | 89,870 | 98.2 | % | 2,079 | 24.98 |
| 600 West Germantown Pike | | Plymouth Meeting | PA | 1986 | 89,626 | 85.4 | % | 2,029 | 27.73 |
| 630 Freedom Business Center | (d) | | PA | 1989 | 86,683 | 98.0 | % | 1,548 | 23.02 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1200 Swedesford Road | | King Of Prussia Berwyn | PA | 1994 | 86,622 | 69.7 | % | 1,658 | 28.88 |
| 620 Freedom Business Center | (d) | King Of Prussia | PA | 1986 | 86,570 | 97.1 | % | 1,805 | 16.09 |
| 1050 Westlakes Drive | | Berwyn | PA | 1984 | 80,000 | 100.0 | % | 2,184 | 27.38 |
| 1060 First Avenue | (d) | King Of Prussia | PA | 1987 | 77,718 | 100.0 | % | 1,755 | 25.60 |
| 1040 First Avenue | (d) | King Of Prussia | PA | 1985 | 75,488 | 100.0 | % | 1,872 | 25.63 |
| 200 Berwyn Park | | Berwyn | PA | 1987 | 75,025 | 100.0 | % | 1,801 | 25.01 |
| 1020 First Avenue | (d) | King Of Prussia | PA | 1984 | 74,556 | 100.0 | % | 1,824 | 24.85 |
| 1000 First Avenue | (d) | King Of Prussia | PA | 1980 | 74,139 | 100.0 | % | 1,720 | 27.49 |
| 130 Radnor Chester Road | | Radnor | PA | 1983 | 71,349 | 100.0 | % | 2,278 | 37.70 |
| 170 Radnor Chester Road | | Radnor | PA | 1983 | 68,143 | 100.0 | % | 2,519 | 40.19 |
| 610 Freedom Business Center | (d) | King Of Prussia | PA | 1985 | 62,991 | 100.0 | % | 1,307 | 25.34 |
| 1180 Swedesford Road | | Berwyn | PA | 1987 | 60,371 | 78.7 | % | 1,063 | 26.88 |
| 1160 Swedesford Road | | Berwyn | PA | 1986 | 60,099 | 100.0 | % | 1,495 | 27.86 |
| 100 Berwyn Park | | Berwyn | PA | 1986 | 57,730 | 100.0 | % | 1,203 | 24.69 |
| 650 Park Avenue | | King Of Prussia | PA | 1968/1999 | 54,338 | 52.4 | % | 469 | 19.02 |
| 1100 Cassett Road | | Berwyn | PA | 1997 | 43,480 | 100.0 | % | 1,212 | 31.18 |
| 600 Park Avenue | | King Of Prussia | PA | 1964/2007 | 39,000 | 100.0 | % | 234 | 6.06 |
| 200 Radnor Chester Road | (e) | Radnor | PA | 2014 | 17,884 | 100.0 | % | 799 | 62.22 |
| SUBTOTAL - "SAME STORE PROPERTY PORTFOLIO" | | | | | 4,562,243 | 92.5 | % | $ 115,135 | $ 30.26 |
| "RECENTLY COMPLETED/ACQUIRED PROPERTIES" | | | | | | | | | |
| 933 First Avenue | | King of Prussia | PA | 2017 | 111,053 | 100.0 | % | $ 3,652 | $ 32.32 |
| 500 North Gulph Road | | King of Prussia | PA | 1979/2018 | 100,820 | 100.0 | % | 175 | 34.16 |
| 200 Barr Harbor Drive | | W. Conshohocken | PA | 1998 | 86,021 | 97.6 | % | 2,595 | 34.18 |
| SUBTOTAL - "RECENTLY COMPLETED/ACQUIRED PROPERTIES" | | | | | 297,894 | 99.3 | % | $ 6,422 | $ 33.45 |
| SUBTOTAL - PENNSYLVANIA SUBURBS SEGMENT | | | | | 4,860,137 | 92.9 | % | $ 121,557 | $ 30.46 |
| PHILADELPHIA CENTRAL BUSINESS DISTRICT SEGMENT | | | | | | | | | |

| "SAME STORE PROPERTY PORTFOLIO" | | | | | | | |
|---|---|---|---|---|---|---|---|
| Three Logan Square (1717 Arch Street) | Philadelphia | PA | 1990 | 1,029,413 | 98.2 % | $ 26,874 | $ 36.34 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Two Commerce Square (2001 Market Street) | | Philadelphia | PA | 1992 | 953,276 | 95.5 | % | 18,702 | 30.46 |
| One Commerce Square (2005 Market Street) | | Philadelphia | PA | 1987 | 942,866 | 99.8 | % | 17,629 | 32.85 |
| Cira Centre (2929 Arch Street) | | Philadelphia | PA | 2005 | 730,187 | 96.6 | % | 25,466 | 38.39 |
| Two Logan Square (100 North 18th Street) | (f) | Philadelphia | PA | 1988 | 708,844 | 98.8 | % | 17,991 | 35.00 |
| One Logan Square (130 North 18th Street) | | Philadelphia | PA | 1989 | 595,041 | 99.6 | % | 14,201 | 35.46 |
| 3020 Market Street | (d) | Philadelphia | PA | 2008 | 190,925 | 100.0 | % | 4,694 | 27.65 |
| 618-634 Market Street | (g), (h) | Philadelphia | PA | 1966 | 15,878 | 76.1 | % | 253 | 27.07 |
| Cira Centre South Garage (2930 Chestnut Street) | (g), (i) | Philadelphia | PA | 2010 | - | 0.0 | % | - | - |
| SUBTOTAL - "SAME STORE PROPERTY PORTFOLIO" | | | | | 5,166,430 | 98.0 | % | $125,810 | $34.27 |
| | | | | | | | | | |
| "RECENTLY COMPLETED/ACQUIRED PROPERTIES" | | | | | | | | | |
| 2929 Walnut Street (FMC Tower at Cira Centre South) | (d), (g), (j) | Philadelphia | PA | 2016 | 625,863 | 100.0 | % | $24,497 | $47.11 |
| 1900 Market Street | | Philadelphia | PA | 2015 | 456,922 | 95.1 | % | 13,545 | 35.18 |
| 3000 Market Street | | Philadelphia | PA | 1988 | 58,587 | 80.8 | % | 1205 | 36.46 |
| SUBTOTAL - "RECENTLY COMPLETED/ACQUIRED PROPERTIES" | | | | | 1,141,372 | 97.1 | % | $39,247 | $42.38 |
| | | | | | | | | | |
| SUBTOTAL - PHILADELPHIA CENTRAL BUSINESS DISTRICT | | | | | 6,307,802 | 97.8 | % | $165,057 | $35.68 |
| | | | | | | | | | |
| METROPOLITAN WASHINGTON D.C. SEGMENT "SAME STORE PROPERTY PORTFOLIO" | | | | | | | | | |
| 1676 International Drive | | McLean | VA | 1999 | 299,387 | 96.1 | % | $9,987 | $40.71 |
| 2340 Dulles Corner Boulevard | | Herndon | VA | 1987 | 264,405 | 100.0 | % | 8,441 | 32.07 |
| 1900 Gallows Road | | Vienna | VA | 1989 | 210,632 | 96.5 | % | 5,872 | 31.57 |
| 6600 Rockledge Drive | (d) | Bethesda | MD | 1981 | 160,173 | 100.0 | % | 4,597 | 30.42 |
| 8260 Greensboro Drive | | McLean | VA | 1980 | 158,961 | 94.2 | % | 3,895 | 28.72 |
| 8521 Leesburg Pike | | Vienna | VA | 1984 | 150,897 | 78.5 | % | 3,453 | 30.27 |
| 2273 Research Boulevard | | Rockville | MD | 1999 | 147,689 | 78.1 | % | 3,085 | 29.04 |
| 2275 Research Boulevard | | Rockville | MD | 1990 | 147,650 | 86.7 | % | 3,637 | 28.81 |
| 2277 Research Boulevard | | Rockville | MD | 1986 | 138,095 | 93.2 | % | 3487 | 27.86 |
| SUBTOTAL - "SAME STORE PROPERTY PORTFOLIO" | | | | | 1,677,889 | 92.7 | % | $46,454 | $32.14 |
| | | | | | | | | | |
| SUBTOTAL - METROPOLITAN WASHINGTON D.C. SEGMENT | | | | | 1,677,889 | 92.7 | % | $46,454 | $32.14 |
| | | | | | | | | | |
| AUSTIN, TX SEGMENT "SAME STORE PROPERTY PORTFOLIO" | | | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 11501 Burnet Road - Building 1 | Austin | TX | 1991 | 202,850 | 100.0% | $3,404 | $26.73 |
| 11501 Burnet Road - Building 5 | Austin | TX | 1991 | 199,108 | 100.0% | 3,212 | 24.69 |
| 11501 Burnet Road - Building 3 | Austin | TX | 1991 | 198,306 | 100.0% | 3,276 | 26.04 |
| 11501 Burnet Road - Building 2 | Austin | TX | 1991 | 143,896 | 100.0% | 3,891 | 28.15 |
| 11501 Burnet Road - Building 4 | Austin | TX | 1991 | 142,386 | 100.0% | 2,387 | 26.31 |
| 11501 Burnet Road - Building 8 | Austin | TX | 1991 | 81,115 | 100.0% | 744 | 17.18 |
| SUBTOTAL - "SAME STORE PROPERTY PORTFOLIO" | | | | 967,661 | 100.0% | $16,914 | $25.52 |
| "RECENTLY COMPLETED/ACQUIRED PROPERTIES" | | | | | | | |
| 1301 South MoPac Expressway | Austin | TX | 2001 | 222,580 | 100.0% | $280 | $36.86 |
| 1601 South MoPac Expressway | Austin | TX | 2000 | 195,639 | 81.0 % | 219 | 37.74 |
| 1501 South MoPac Expressway | Austin | TX | 1999 | 195,324 | 100.0% | 266 | 39.51 |
| 11305 Four Points Drive | Austin | TX | 2008 | 192,396 | 94.0 % | 218 | 35.10 |
| 1221 South MoPac Expressway | Austin | TX | 2001 | 173,302 | 100.0% | 224 | 38.44 |
| 11501 Burnet Road - Building 6 | Austin | TX | 2018 | 144,249 | 98.2 % | 2,673 | 28.94 |
| 4516 Seton Center Parkway | Austin | TX | 1998 | 120,559 | 100.0% | 87 | 33.70 |

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| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 6500 River Place Boulevard - Building 2 | | Austin | TX | 2000 | 114,491 | 97.5 % | 115 | 34.69 |
| 6500 River Place Boulevard - Building 3 | | Austin | TX | 2000 | 113,465 | 100.0% | 119 | 32.86 |
| 6500 River Place Boulevard - Building 4 | | Austin | TX | 2000 | 87,639 | 100.0% | 90 | 31.89 |
| 6500 River Place Boulevard - Building 1 | | Austin | TX | 2000 | 76,529 | 100.0% | 86 | 34.42 |
| 6500 River Place Boulevard - Building 7 | | Austin | TX | 2002 | 69,119 | 100.0% | 81 | 34.28 |
| 6500 River Place Boulevard - Building 5 | | Austin | TX | 2001 | 67,601 | 100.0% | 86 | 37.94 |
| 6500 River Place Boulevard - Building 6 | | Austin | TX | 2001 | 62,038 | 100.0% | 65 | 34.07 |
| SUBTOTAL - "RECENTLY COMPLETED/ACQUIRED PROPERTIES" | | | | | 1,834,931 | 97.0 % | $4,609 | $35.52 |
| SUBTOTAL - AUSTIN, TX SEGMENT | | | | | 2,802,592 | 98.1 % | $21,523 | $31.93 |
| OTHER SEGMENT | | | | | | | | |
| "SAME STORE PROPERTY PORTFOLIO" | | | | | | | | |
| 300 Delaware Avenue | | Wilmington | DE | 1989 | 298,071 | 70.6 % | $2,539 | $15.86 |
| 920 North King Street | | Wilmington | DE | 1989 | 203,328 | 99.8 % | 3,814 | 28.16 |
| Main Street - Piazza | | Voorhees | NJ | 1990 | 44,708 | 100.0% | 718 | 22.06 |
| Main Street - Promenade | | Voorhees | NJ | 1988 | 31,445 | 67.7 % | 223 | 16.30 |
| 7 Foster Avenue | | Gibbsboro | NJ | 1983 | 22,158 | 66.8 % | 166 | 17.25 |
| 10 Foster Avenue | | Gibbsboro | NJ | 1983 | 18,651 | 95.7 % | 230 | 13.04 |
| 5 U.S. Avenue | (g) | Gibbsboro | NJ | 1987 | 5,000 | 100.0% | 32 | 6.37 |
| 5 Foster Avenue | | Gibbsboro | NJ | 1968 | 2,000 | 100.0% | - | - |
| SUBTOTAL - "SAME STORE PROPERTY PORTFOLIO" | | | | | 625,361 | 83.0 % | $7,722 | $20.93 |
| SUBTOTAL - OTHER SEGMENT | | | | | 625,361 | 83.0 % | $7,722 | $20.93 |
| TOTAL CORE PORTFOLIO | | | | | 16,273,781 | 95.3 % | $362,313 | $32.63 |

(a) Calculated by dividing net rentable square feet included in leases signed on or before December 31, 2018 at the property by the aggregate net rentable square feet of the property.

(b) “Total Base Rent” for the twelve months ended December 31, 2018 represents base rents earned during such period, including tenant reimbursements, and excluding parking income, tenant inducements and deferred market rent adjustments.

(c) “Average Annualized Rental Rate” is calculated by taking the sum of the annualized current base rent as of December 31, 2018 plus the annualized current billable operating expense reimbursements excluding tenant electricity divided by the total square feet occupied as of December 31, 2018.

(d) These properties are subject to a ground lease with a third party.

(e) This property is retail.

(f) We hold our interest in Two Logan Square (100 North 18th Street - Philadelphia, Pennsylvania) through our ownership of second and third mortgages that are secured by this property and that are junior to a first mortgage held by a third party lender. Our ownership of these two mortgages currently provides us with all of the cash flows from Two Logan Square after the payment of operating expenses and debt service on the first mortgage.

(g) These properties are mixed-use.

(h) This is a 330-space parking garage facility that also contains retail space.

(i) This is a 1,662-space parking garage facility.

(j) Percentage leased and total base rent represents office component only.

The following table shows information regarding rental rates and lease expirations for the Properties, excluding development and redevelopment properties, at December 31, 2018 and assumes that none of the tenants exercise renewal options or termination rights, if any, at or prior to scheduled expirations:

| Year of Lease Expiration December 31, | Number of Leases Expiring Within the Year | Rentable Square Footage Subject to Expiring Leases | Final Annualized Base Rent Under Expiring Leases (a) | Final Annualized Base Rent Per Square Foot Expiring Leases | Percentage of Total Final Annualized Base Rent Under Expiring Leases | Cumulative Total |
|---|---|---|---|---|---|---|
| 2018 (b) | 16 | 30,981 | $940,766 | $ 16.14 | 0.0 % | 0.0 % |
| 2019 | 132 | 935,338 | 30,564,504 | 32.68 | 5.5 % | 5.5 % |
| 2020 | 146 | 1,555,990 | 51,204,068 | 32.91 | 9.3 % | 14.8 % |
| 2021 | 137 | 1,453,473 | 47,601,464 | 32.75 | 8.6 % | 23.4 % |
| 2022 | 124 | 2,194,635 | 74,176,425 | 33.80 | 13.4 % | 36.8 % |
| 2023 | 97 | 1,145,793 | 40,476,491 | 35.33 | 7.3 % | 44.1 % |
| 2024 | 79 | 1,728,889 | 62,364,630 | 36.07 | 11.3 % | 55.4 % |
| 2025 | 45 | 785,384 | 30,270,785 | 38.54 | 5.5 % | 60.9 % |
| 2026 | 51 | 1,072,792 | 38,134,399 | 35.55 | 6.9 % | 67.8 % |
| 2027 | 34 | 777,899 | 31,173,618 | 40.07 | 5.6 % | 73.4 % |
| 2028 | 19 | 720,792 | 24,945,356 | 34.61 | 4.5 % | 77.9 % |
| 2029 and thereafter | 50 | 2,777,897 | 120,991,428 | 43.56 | 22.1 % | 100.0 % |
| | 930 | 15,179,863 | $552,843,933 | $ 36.39 | 100.0 % | |

(a) “Final Annualized Base Rent” for each lease scheduled to expire represents the cash rental rate of base rents, including tenant reimbursements, in the final month prior to expiration multiplied by 12. Tenant reimbursements generally include payment of a portion of real estate taxes, operating expenses and common area maintenance and utility charges.

(b) Relates to existing month-to-month tenancy leases and to expired leases, which converted to month-to-month tenancies until a written notice to vacate is provided by us or until a new lease agreement is agreed upon with the tenant. Final Annualized Base Rent Under Expiring Leases includes $0.4 million for which there is no square footage. Leases for which there is no square footage are excluded from the calculation of Final Annualized Base Rent Per Square Foot Expiring Leases.

The following table sets forth information regarding leases at the Properties, excluding development and redevelopment properties, with the largest 20 tenants based upon Annualized Base Rent as of December 31, 2018:

| Tenant Name (a) | Number of Leases | Weighted Average Remaining Lease Term Months | Aggregate Leased Square Feet | Percentage of Aggregate Leased Square Feet | Annualized Base Rent (in 000) (b) | Percentage of Aggregate Annualized Base Rent |
|---|---|---|---|---|---|---|
| IBM, Inc. | 1 | 41 | 839,652 | 5.5 % | $ 22,346 | 4.5 % |
| Comcast Corporation | 7 | 41 | 487,951 | 3.2 % | 17,385 | 3.5 % |
| FMC Corporation | 1 | 162 | 228,025 | 1.5 % | 10,258 | 2.1 % |
| CSL Behring LLC | 6 | 116 | 373,263 | 2.5 % | 10,239 | 2.1 % |
| Pepper Hamilton LLP | 2 | 109 | 285,906 | 1.9 % | 9,998 | 2.0 % |
| Lincoln National Management Co. | 1 | 63 | 228,447 | 1.5 % | 8,484 | 1.7 % |
| Northrup Grumman Corporation | 1 | 57 | 254,197 | 1.7 % | 8,201 | 1.7 % |
| KPMG LLP | 2 | 12 | 189,282 | 1.2 % | 8,145 | 1.6 % |
| Macquarie US | 1 | 19 | 223,355 | 1.5 % | 7,582 | 1.5 % |
| Dechert LLP | 1 | 25 | 191,208 | 1.3 % | 7,386 | 1.5 % |
| Independence Blue Cross, LLC | 1 | 184 | 227,974 | 1.5 % | 6,813 | 1.4 % |
| The Trustees of the University of Pennsylvania | 2 | 167 | 153,937 | 1.0 % | 6,195 | 1.3 % |
| General Services Administration — U.S. Govt. (c) | 6 | 64 | 30,092 | 0.2 % | 5,739 | 1.2 % |
| Blank Rome LLP | 1 | 37 | 196,689 | 1.3 % | 5,619 | 1.1 % |
| Drinker Biddle & Reath LLP | 1 | 130 | 147,298 | 1.0 % | 5,329 | 1.1 % |
| PricewaterhouseCoopers LLP | 1 | 136 | 161,450 | 1.1 % | 5,224 | 1.1 % |
| Reliance Standard Life Insurance Company | 2 | 36 | 147,202 | 1.0 % | 4,679 | 0.9 % |
| VWR Management Services LLC | 1 | 72 | 149,858 | 1.0 % | 4,661 | 0.9 % |
| Reed Smith LLP | 1 | 135 | 129,996 | 0.9 % | 4,625 | 0.9 % |
| SHI International Corporation | 1 | 15 | 110,399 | 0.7 % | 4,510 | 0.9 % |
| Consolidated Total/Weighted Average | 40 | 75 | 4,756,181 | 31.5 % | $ 163,418 | 33.0 % |

(a) The identified tenant includes affiliates of the tenant in certain circumstances.
(b) Annualized Base Rent represents the monthly base rent, including tenant reimbursements, for each lease in effect at December 31, 2018 multiplied by 12. Tenant reimbursements generally include payment of a portion of real estate taxes, operating expenses and common area maintenance and utility charges.
(c) Annualized rent includes $4.7 million related to parking for which there is no square footage included in Aggregate Leased Square Feet.

Real Estate Ventures

As of December 31, 2018, we owned economic interests in ten unconsolidated Real Estate Ventures for an aggregate investment balance of $169.1 million. We 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 the possible development of office, residential, and/or mixed-use properties. As of December 31, 2018, six of the real estate ventures owned properties that contain an aggregate of approximately 5.8 million net rentable square feet of office space; two real estate ventures owned 1.4 acres of land held for development; one real estate venture owned 1.3 acres of land in active development; and one real estate venture owned a residential tower that contains 321 apartment units.

We account for our investments in these Real Estate Ventures using the equity method. For further information regarding Real Estate Ventures, see Note 4, "*Investment in Unconsolidated Real Estate Ventures,*" to our Consolidated Financial Statements.

**Item 3.** Legal Proceedings

We are involved from time to time in legal proceedings, including tenant disputes, disputes with vendors, employee disputes and disputes arising out of agreements to purchase or sell properties or joint ventures and disputes relating to state and local taxes. We generally consider these disputes to be routine to the conduct of our business and management believes that the final outcome of such proceedings will not have a material adverse effect on our financial position, results of operations or liquidity.

**Item 4. Mine Safety Disclosures**

Not applicable.

PART II

**Item 5.** Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

The common shares of Brandywine Realty Trust are traded on the New York Stock Exchange ("NYSE") under the symbol "BDN." There is no established trading market for units of partnership interests in the Operating Partnership. On February 15, 2019, there were 589 holders of record of our common shares and 23 holders of record (in addition to Brandywine Realty Trust) of Class A units of limited partnership interest in the Operating Partnership. On February 15, 2019, the last reported sales price of the common shares on the NYSE was $15.97. The following table sets forth the quarterly high and low sales price per common share reported on the NYSE for the indicated periods and the distributions paid by us with respect to each such period.

For each quarter in 2018 and 2017, the Operating Partnership paid a cash distribution per Class A unit in an amount equal to the dividend paid on a common share for each such quarter.

In order to maintain the status of Brandywine Realty Trust as a REIT, we must make annual distributions to shareholders of at least 90% of our taxable income (not including net capital gains). Future distributions will be declared at the discretion of our Board of Trustees and will depend on our actual cash flow, financial condition and capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code and such other factors as our Board of Trustees deem relevant. Our credit facilities contain certain restrictions on the payment of dividends. Those restrictions permit us to pay dividends to the greater of (i) an aggregate amount required by us to retain our qualification as a REIT for Federal income tax purposes and (ii) 95% of our funds from operations, (FFO). See Item 7., "*Selected Financial Date – Liquidity,*" and Note 7, *"Debt Obligations,"* to our Consolidated Financial Statements for further details.

Our Board of Trustees has adopted a dividend policy designed such that our quarterly distributions are consistent with our normalized annualized taxable income. On December 6, 2018, our Board declared a quarterly dividend distribution of $0.19 per common share that was paid on January 22, 2019. Dividends declared for each of the first three quarters of 2018 were in the amount of $0.18 per common share. We expect to make future quarterly distributions to shareholders; however, the timing and amount of future distributions will be at the discretion of our Board and will depend on our actual funds from operations, financial condition and capital requirements and the annual distribution requirements under the REIT provisions of the Code.

The following table provides information as of December 31, 2018, with respect to compensation plans (including individual compensation arrangements) under which our common shares are authorized for issuance:

Plan category

| | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|---|---|---|---|
| Equity compensation plans approved by security holders (1) | 964,359 | $ 9.13 | 6,500,000 |
| Equity compensation plans not approved by security holders | — | — | 866,306 |
| Total | 964,359 | $ 9.13 | 7,366,306 |

(1) Relates to our Amended and Restated 1997 Long-Term Incentive Plan (the "1997 Plan") and 46,667 options awarded prior to the adoption of the 1997 Plan. Under the 1997 Plan, as amended, the number of common shares remaining available for awards under the 1997 Plan was 7,366,306 as of December 31, 2018.

The Parent Company maintains a common share repurchase program under which the Board of Trustees has authorized the Parent Company to repurchase common shares. On January 3, 2019, the Board of Trustees replenished this program by authorizing the Parent Company to repurchase up to $150 million common shares under the program from and after January 3, 2019. During the year ended 2018, we repurchased and retired 1,729,278 common shares at an average price of $12.64 per share, totaling $21.9 million. During the years ended December 31, 2017 and 2016, there were no share repurchases under the program. Repurchases under the program may

be made from time to time in our discretion on the open market or through privately negotiated transactions. The repurchase program has no time limit and may be suspended or discontinued at any time without notice.

In 2018, we redeemed 496,928 Class A units of limited partnership interest held by unaffiliated third parties for total cash payments of $7.0 million.

SHARE PERFORMANCE GRAPH

The SEC requires us to present a chart comparing the cumulative total shareholder return on the common shares with the cumulative total shareholder return of (i) a broad equity index and (ii) a published industry or peer group index. The following chart compares the cumulative total shareholder return for the common shares with the cumulative shareholder return of companies on (i) the S&P 500, (ii) the Russell 2000, (iii) the NAREIT All Equity REIT Index and (iv) the NAREIT Equity Office Index for the period beginning December 31, 2013 and ending December 31, 2018 and assumes an investment of $100, with reinvestment of all dividends, has been made in the common shares and in each index on December 31, 2013.

| | Period Ending | | | | | |
|---|---|---|---|---|---|---|
| Index | 12/31/13 | 12/31/14 | 12/31/15 | 12/31/16 | 12/31/17 | 12/31/18 |
| S&P 500 Index | 100.00 | 113.69 | 115.26 | 129.05 | 157.22 | 150.33 |
| NAREIT All Equity REIT Index | 100.00 | 128.03 | 131.64 | 143.00 | 155.41 | 149.12 |
| NAREIT Equity Office Index | 100.00 | 125.86 | 126.22 | 142.84 | 150.33 | 128.54 |
| Russell 2000 Index | 100.00 | 104.89 | 100.26 | 121.63 | 139.44 | 124.09 |
| Brandywine Realty Trust | 100.00 | 118.24 | 105.44 | 132.86 | 152.05 | 112.42 |

**Item 6.** Selected Financial Data

The following table sets forth selected financial and operating data and should be read in conjunction with the financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this report.

Brandywine Realty Trust

(in thousands, except per common share data and number of properties)

| Years Ended December 31, | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Operating Results | | | | | |
| Total revenue | $544,345 | $520,493 | $525,463 | $602,631 | $596,982 |
| Income (loss) from continuing operations | 137,289 | 121,859 | 40,501 | (30,740 ) | 6,024 |
| Net income (loss) | 137,289 | 121,859 | 40,501 | (30,740 ) | 6,942 |
| Income (loss) allocated to Common Shares | 135,955 | 115,310 | 32,950 | (37,630 ) | (274 ) |
| Income (loss) from continuing operations per Common Share | | | | | |
| Basic | $0.76 | $0.66 | $0.19 | $(0.21 ) | $(0.01 ) |
| Diluted | $0.76 | $0.65 | $0.19 | $(0.21 ) | $(0.01 ) |
| Earnings (loss) per Common Share | | | | | |
| Basic | $0.76 | $0.66 | $0.19 | $(0.21 ) | $- |
| Diluted | $0.76 | $0.65 | $0.19 | $(0.21 ) | $- |
| Cash distributions declared per Common Share | $0.73 | $0.66 | $0.63 | $0.60 | $0.60 |
| Balance Sheet Data | | | | | |
| Real estate investments, net of accumulated depreciation | $3,364,520 | $3,156,687 | $3,182,251 | $3,225,427 | $3,827,826 |
| Total assets | 4,098,521 | 3,995,448 | 4,099,213 | 4,554,511 | 4,835,210 |
| Total indebtedness | 2,028,046 | 1,930,828 | 2,013,112 | 2,384,717 | 2,427,345 |
| Total liabilities | 2,265,948 | 2,148,848 | 2,215,776 | 2,602,420 | 2,675,884 |
| Noncontrolling interest | 12,320 | 17,420 | 17,093 | 18,166 | 18,499 |
| Brandywine Realty Trust's equity | 1,820,253 | 1,829,180 | 1,866,344 | 1,933,925 | 2,140,827 |
| Other Data | | | | | |
| Cash flows from (a): | | | | | |
| Operating activities | $227,349 | $182,581 | $173,800 | $197,154 | $188,999 |
| Investing activities | (214,506 ) | 79,801 | 500,910 | (166,452 ) | (270,785 ) |
| Financing activities | (193,074 ) | (253,558 ) | (536,786 ) | (231,510 ) | 76,081 |
| Funds from operations (FFO) (b) | 247,693 | 229,219 | 166,979 | 261,793 | 227,662 |
| Property Data | | | | | |
| Number of properties owned at year end | 97 | 93 | 113 | 179 | 200 |
| Net rentable square feet owned at year end | 16,777 | 16,412 | 17,618 | 23,015 | 25,083 |

**Brandywine Operating Partnership, L.P.**

(in thousands, except per common partnership unit data and number of properties)

| Years Ended December 31, | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Operating Results | | | | | |
| Total revenue | $544,345 | $520,493 | $525,463 | $602,631 | $596,982 |
| Income (loss) from continuing operations | 137,289 | 121,859 | 40,501 | (30,740) | 6,024 |
| Net income (loss) | 137,289 | 121,859 | 40,501 | (30,740) | 6,942 |
| Income (loss) from continuing operations per Common Partnership Unit | | | | | |
| Basic | $0.76 | $0.66 | $0.19 | $(0.21) | $(0.01) |
| Diluted | $0.76 | $0.65 | $0.19 | $(0.21) | $(0.01) |
| Income (loss) per Common Partnership Unit | | | | | |
| Basic | $0.76 | $0.66 | $0.19 | $(0.21) | $- |
| Diluted | $0.76 | $0.65 | $0.19 | $(0.21) | $- |
| Cash distributions declared per Common Partnership Unit | $0.73 | $0.66 | $0.63 | $0.60 | $0.60 |
| Balance Sheet Data | | | | | |
| Real estate investments, net of accumulated depreciation | $3,364,520 | $3,156,687 | $3,182,251 | $3,225,427 | $3,827,826 |
| Total assets | 4,098,521 | 3,995,448 | 4,099,213 | 4,554,511 | 4,835,210 |
| Total indebtedness | 2,028,046 | 1,930,828 | 2,013,112 | 2,384,717 | 2,427,345 |
| Total liabilities | 2,265,948 | 2,148,848 | 2,215,776 | 2,602,420 | 2,675,884 |
| Redeemable limited partnership units | 12,520 | 26,918 | 23,795 | 22,114 | 24,571 |
| Brandywine Operating Partnership’s equity | 1,817,861 | 1,817,467 | 1,857,492 | 1,927,945 | 2,133,745 |
| Noncontrolling interest | 2,192 | 2,215 | 2,150 | 2,032 | 1,010 |
| Other Data | | | | | |
| Cash flows from (a): | | | | | |
| Operating activities | $227,349 | $182,581 | $173,800 | $197,154 | $188,999 |
| Investing activities | (214,506) | 79,801 | 500,910 | (166,452) | (270,785) |
| Financing activities | (193,074) | (253,558) | (536,786) | (231,510) | 76,081 |
| Funds from operations (FFO) (b) | 247,693 | 229,219 | 166,979 | 261,793 | 227,662 |
| Property Data | | | | | |
| Number of properties owned at year end | 97 | 93 | 113 | 179 | 200 |
| Net rentable square feet owned at year end | 16,777 | 16,412 | 17,618 | 23,015 | 25,083 |

(a) During the first quarter of 2018, we adopted Financial Accounting Standards Board (the “FASB”) ASU No. 2016-18, *Restricted Cash a consensus of the FASB Emerging Issues Task Force* (“ASU 2016-18”), which required us to reclassify restricted cash balances to be included with cash and cash equivalents balances as of the beginning and end of each period presented in the consolidated statements of cash flows. There was no other impact from the adoption of this guidance.

(b) See Item 7., "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Funds From Operations (FFO),*" for a discussion and definition of FFO and a reconciliation of net income (loss) attributable to common share and unit holders to FFO.

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

The following discussion should be read in conjunction with the Consolidated Financial Statements appearing elsewhere herein and is based primarily on our Consolidated Financial Statements for the years ended December 31, 2018, 2017 and 2016. This report including the following discussion, contains forward-looking statements, which we intend to be covered by the safe-harbor provisions of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. The words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “will,” “should” and similar expressions, as they relate to us, are intended to 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. These forward-looking statements are inherently uncertain, and actual results may differ from expectations. “See “Forward-Looking Statements” immediately before Part I of this report.

***OVERVIEW***

We are a self-administered and self-managed 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. As of December 31, 2018, we owned 97 properties that contained an aggregate of approximately 16.8 million net rentable square feet (collectively, the Properties). Our core portfolio of operating properties, as of December 31, 2018, excludes one development property and three redevelopment properties under construction or committed for construction (collectively, the Core Properties). The Properties were comprised of the following as of December 31, 2018:

| | Number of Properties | Rentable Square Feet | Percentage Occupied | Percentage Leased |
|---|---|---|---|---|
| Office properties | 88 | 15,609,156 | | |
| Mixed-use properties | 4 | 646,741 | | |
| Retail property | 1 | 17,884 | | |
| Core Properties | 93 | 16,273,781 | 93.3% | 95.3% |
| Development property | 1 | 164,818 | | |
| Redevelopment properties | 3 | 338,650 | | |
| The Properties | 97 | 16,777,249 | | |

In addition, as of December 31, 2018, we owned economic interests in ten unconsolidated real estate ventures (collectively, the “Real Estate Ventures”), six of which own properties that contain an aggregate of approximately 5.8 million net rentable square feet of office space; two of which own, in aggregate, 1.4 acres of land held for development; one that owns 1.3 acres in active development; and one that owns a residential tower that contains 321 apartment units.

In addition to our Properties, as of December 31, 2018, we owned land held for development, comprised of 237.4 acres of undeveloped land, of which 37.9 acres were held for sale, 1.8 acres related to leasehold interests in two land parcels each acquired through prepaid 99-year ground leases, and held options to purchase approximately 55.5 additional acres of undeveloped land. As of December 31, 2018, the total potential development that these land parcels could support under current zoning and entitlements, including the parcels under option, amounted to an estimated 14.3 million square feet, of which 0.4 million square feet relates to 37.9 acres held for sale. The Properties and the properties owned by the Real Estate Ventures are located in or near Philadelphia, Pennsylvania; Austin, Texas; Metropolitan Washington, D.C.; Southern New Jersey; and Wilmington, Delaware.

We conduct our third-party real estate management services business primarily through wholly-owned management company subsidiaries. As of December 31, 2018, the management company subsidiaries were managing properties containing an aggregate of approximately 24.8 million net rentable square feet, of which approximately 16.8 million net rentable square feet related to Properties that we own and consolidate and approximately 8.0 million net rentable square feet related to properties owned by third parties and the Real Estate Ventures. Unless otherwise indicated, all references in this Form 10-K to “square feet” represent the rentable area. We do not have any foreign operations and our business is not seasonal. Our operations are not dependent on a single tenant or a few tenants and no single tenant accounted for more than 10% of our total 2018 revenue.

During the twelve months ended December 31, 2018, we owned and managed properties within five markets: (1) Philadelphia Central Business District (“Philadelphia CBD”), (2) Pennsylvania Suburbs, (3) Austin, Texas, (4) Metropolitan Washington, D.C., and (5) Other. The Philadelphia CBD segment includes properties located in the City of Philadelphia in Pennsylvania. The Pennsylvania Suburbs segment includes properties in Chester, Delaware and Montgomery counties in the Philadelphia suburbs. The Austin, Texas segment includes properties in the City of Austin, Texas. The Metropolitan Washington, D.C. segment includes properties in Northern Virginia, Washington, D.C. and southern Maryland. The Other segment includes properties in Camden County in New Jersey and properties in New Castle County in Delaware. In addition to the five markets, 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 and industrial 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.

The following highlights our financial results for the year ended December 31, 2018:

- Net income available to common shareholders increased by $20.7 million to $136.0 million for the year ended December 31, 2018, as compared to the corresponding period in 2017.
- Funds from operations available to common share and unit holders (“FFO”), a non-GAAP financial measure, increased to $247.7 million or $1.37 per diluted share for the year ended December 31, 2018, from $229.2 million or $1.29 per diluted share for the year ended December 31, 2017 (see additional disclosure in the *“Funds From Operations (FFO)”* section below).

- Same Store net operating income, a non-GAAP financial measure, decreased 2.2% for the year ended December 31, 2018, as compared to the corresponding period in 2017 (see additional disclosure on Same Store net operating income in *"Results of Operations"* section below).
- Core Occupancy increased from 92.9% at December 31, 2017, to 93.3% at December 31, 2018.
-
-

Factors that May Influence Future Results of Operations

Global Market and Economic Conditions

In the U.S., market and economic conditions have been improving, characterized by more availability to credit, increasing interest rates and modest growth. While recent economic data reflects modest growth, the cost and availability of credit may be adversely affected by illiquid credit markets and wider credit spreads. Volatility in the U.S. and international markets and economies may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our tenants. Any adverse market conditions may limit our ability, as well as the ability of our tenants, to timely refinance maturing liabilities and access capital markets to meet liquidity needs.

Real Estate Asset Valuation

General economic conditions and the resulting impact on market conditions or a downturn in tenants' businesses may adversely affect the value of our assets. Challenging economic conditions in the U.S., declining demand for leased office, retail, or mixed-use properties and/or a decrease in market rental rates and/or market values of real estate assets in our submarkets could have a negative impact on the value of our Properties. If we were required under GAAP to write down the carrying value of any of our Properties due to impairment, or if as a result of an early lease termination we were required to remove or dispose of material amounts of tenant improvements that are not reusable to another tenant, our financial condition and results of operations could be negatively affected.

Leasing Activity and Rental Rates

The amount of net rental income generated by our Properties depends principally on our ability to maintain the occupancy rates of currently leased space and to lease currently available space, newly developed or redeveloped properties and space available from unscheduled lease terminations. The amount of rental income we generate also depends on our ability to maintain or increase rental rates in our submarkets. Negative trends in one or more of these factors could adversely affect our rental income in future periods.

Equity Method Investment Valuation

Our equity method investments, consisting of our investments in unconsolidated Real Estate Ventures, may be adversely affected by changes in the real estate markets in which they operate. Under the equity method, investments in unconsolidated Real Estate Ventures are recorded initially at cost and subsequently adjusted for equity in earnings, cash contributions, less distributions and impairments. As required under accounting rules, we periodically evaluate and assess our equity method investments for other than temporary impairment. In valuing our equity method investments, fair value is determined through various valuation techniques, including but not limited to, discounted cash flow models, quoted market values and third party appraisals. However, such quoted data and other market information can vary, even for the same properties. To the extent that the real estate markets deteriorate or we are unable to lease our development projects, it could result in declines in the fair value of our equity method investments that are other than temporary and, we may realize losses that never materialize or we may fail to recognize losses in the appropriate period. Rapidly changing conditions in the real estate markets in which we operate increase the complexity of valuing our equity method investments. Our judgments and methodologies materially impact the valuation of the investments as reported in our financial statements.

Development and Redevelopment Programs

Historically, a significant portion of our growth has come from our development and redevelopment efforts. We have a proactive planning process by which we continually evaluate the size, timing, costs and scope of our development and redevelopment programs and, as necessary, scale activity to reflect the economic conditions and the real estate fundamentals that exist in our strategic submarkets. We are currently proceeding with certain development and redevelopment projects, and we take a cautious and selective approach when determining if a certain development or redevelopment project will benefit our portfolio.

In addition, we may be unable to lease committed development or redevelopment properties at underwritten rental rates or within projected timeframes or complete development or redevelopment properties on schedule or within budgeted amounts, which could adversely affect our financial condition, results of operations and cash flow.

*Financial and Operating Performance*

Our financial and operating performance is dependent upon the demand for office, residential and retail 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 result in a reduction of the availability of financing and potentially in higher borrowing costs. Vacancy rates may increase, and rental rates may decline, during 2019 and possibly beyond as the current economic climate may negatively impact tenants.

Overall economic conditions, including but not limited to higher unemployment and 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 adverse 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 a 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.

The table below summarizes selected operating and leasing statistics of our wholly owned operating properties for the year ended December 31, 2018:

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| Leasing Activity | | | | |
| Core Properties (1): | | | | |
| Total net rentable square feet owned | 16,273,781 | | 15,583,466 | |
| Occupancy percentage (end of period) | 93.3 | % | 92.9 | % |
| Average occupancy percentage | 92.9 | % | 91.9 | % |
| Total Portfolio, less properties in development (2): | | | | |
| Retention rate | 72.6 | % | 74.9 | % |
| New leases and expansions commenced (square feet) | 708,218 | | 876,729 | |
| Leases renewed (square feet) | 846,313 | | 1,248,080 | |
| Net absorption (square feet) | (2,863 | ) | 43,669 | |
| Percentage change in rental rates per square feet (3): | | | | |
| New and expansion rental rates | 24.3 | % | 15.4 | % |
| Renewal rental rates | 7.5 | % | 4.5 | % |
| Combined rental rates | 12.9 | % | 6.7 | % |
| Capital Costs Committed (4): | | | | |
| Leasing commissions (per square feet) | $4.93 | | $4.14 | |
| Tenant Improvements (per square feet) | $15.76 | | $11.04 | |
| Weighted average lease term (years) | 6.5 | | 7.3 | |
| Total capital per square foot per lease year | $2.68 | | $1.89 | |

(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 7.1% of our aggregate final annualized base rents as of December 31, 2018 (representing approximately 7.4% of the net rentable square feet of the properties) are scheduled to expire without penalty in 2019. We maintain an active dialogue with our tenants in an effort to maximize lease renewals. 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 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 $12.9 million or 6.6% of total receivables (including accrued rent receivable) as of December 31, 2018 compared to $17.1 million or 8.4% of total receivables (including accrued rent receivable) as of December 31, 2017.

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 December 31, 2018, the following development and redevelopment projects remain under construction in progress and we were proceeding on the following activity (dollars, in thousands):

| Construction Commencement Date | Expected Completion | Activity Type | Property/Portfolio Name | Location | Number of Buildings | Square Footage/ Units | Estimated Costs | | Amount Funded |
|---|---|---|---|---|---|---|---|---|---|
| Q4 2017 | Q1 2019 | Development | Four Points Building 3 | Austin, TX | 1 | 165,000 | $47,500 | (a) | $35,900 |
| Q2 2019 | Q2 2020 | Redevelopment | The Bulletin Building | Philadelphia, PA | 1 | 283,000 | 83,100 | (b) | 44,300 |
| Q2 2018 | Q1 2019 | Redevelopment | 426 W. Lancaster Avenue | Devon, PA | 1 | 56,000 | 14,900 | (c) | 8,900 |
| | | Total | | | 3 | 504,000 | $145,500 | | $89,100 |

(a) The project is pre-leased to a single tenant. Total estimated costs include $2.1 million of land basis existing at project inception.
(b) Total project costs include $37.8 million of building basis, representing the acquisition cost. The amount funded, as of December 31, 2018, includes $1.2 million related to an $8.0 million funding commitment required through the ground lease. See below in Item 7., *"Liquidity and Capital Resources – Contractual Obligations"* for further information regarding this commitment.
(c) The property was vacated during the third quarter of 2017. Current plans are to renovate this building. Total project costs include $4.9 million of existing property basis.

Other Development Services

In addition to the projects above, as of December 31, 2018, we were engaged in the development of the projects at Schuylkill Yards in Philadelphia, Pennsylvania and at 4040 Wilson Venture, the unconsolidated real estate venture in which we own a 50% interest, constructing a mixed-use building in Arlington, Virginia. See Item 1., *"Business – Developments*," for further information.

Land Holdings

As of December 31, 2018, we owned approximately 237.4 acres of undeveloped land, of which 37.9 acres were held for sale, 1.8 acres related to leasehold interests in two land parcels, each acquired through prepaid 99-year ground leases, and held options to purchase approximately 55.5 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 and rental rates. As of December 31, 2018, the total potential development that these land parcels could support, under current zoning and entitlements, including the parcels under option, amounted to an estimated 14.3 million square feet, of which 0.4 million square feet relates to 37.9 acres held for sale.

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. See Item 1A., "*Risk Factors.*"

Although we continue to evaluate opportunities to acquire assets, the abundance of capital and demand for assets has resulted in increasing prices. As a result, in the current environment, we are able to develop properties at a cost per square foot that is generally

less than the cost at which we can acquire existing properties, thereby generating relatively better returns with lower annual maintenance expenses and capital costs. Accordingly, we believe that successful lease-up and completion of our development pipeline will enhance our long-term return on equity and earnings growth as these developments are placed in-service.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses 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 financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting periods. 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 the accounting estimate are reasonably likely to occur from period to period. Management believes the accounting policies included in Note 2, "*Summary of Significant Accounting Policies,*" to our Consolidated Financial Statements reflect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

RESULTS OF OPERATIONS

The following discussion is based on our Consolidated Financial Statements for the years ended December 31, 2018, 2017 and 2016. 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 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 17, "*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 17, "*Segment Information,*" to our Consolidated Financial Statements for a reconciliation of NOI to our consolidated net income (loss) as defined by GAAP.

Comparison of the Year Ended December 31, 2018 to the Year Ended December 31, 2017

The table below shows selected operating information for the "Same Store Property Portfolio" and the "Total Portfolio." The Same Store Property Portfolio consists of 73 properties containing an aggregate of approximately 13.0 million net rentable square feet, and represents properties that we owned for the twelve-month periods ended December 31, 2018 and 2017. The Same Store Property Portfolio includes properties acquired or placed in service on or prior to January 1, 2017 and owned through December 31, 2018. The Total Portfolio includes the effects of other properties that were either placed into service, acquired or redeveloped after January 1, 2017 or disposed prior to December 31, 2018. A

property is excluded from our Same Store Property Portfolio and moved into Development/Redevelopment in the period that we determine to proceed with development/redevelopment 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 twelve-month periods ended December 31, 2018 and 2017) by providing information for the properties which were acquired, placed into service, under development or redevelopment and administrative/elimination information for the twelve-month periods ended December 31, 2018 and 2017.

During the year ended December 31, 2018, the Same Store Property Portfolio was reduced by the disposition on June 21, 2018 of 20 East Clementon Road, an office property in Gibbsboro, New Jersey, containing 38,260 rentable square feet. Additionally, The Lift at Juniper Street, a parking garage containing no rentable square feet, was removed from the Same Store Property Portfolio and placed into redevelopment and eight properties containing 1,293,197 rentable square feet, located in Herndon, Virginia were sold. For detail of the properties comprising the Same Store Property Portfolio, as of December 31, 2017, see Item 2. *"Properties"* section of our Annual Report on Form 10-K for the year ended December 31, 2017. The Total Portfolio net income (loss) presented in the table is equal to the net income (loss) of the Parent Company and the Operating Partnership.

***Comparison of Year Ended December 31, 2018 to the Year Ended December 31, 2017***

| | Same Store Property Portfolio | | | Recently Completed/Acquired Properties (a) | | Development/Redevelopment Properties (b) | | Other (Eliminations) (c) | | Total Por |
|---|---|---|---|---|---|---|---|---|---|---|
| (dollars and square feet in thousands) | 2018 | 2017 | Increase/ (Decrease) | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 |
| Revenue: | | | | | | | | | | |
| Cash rents | $327,221 | $321,887 | $5,334 | $53,068 | $17,270 | $1,817 | $1,082 | $32,199 | $40,570 | $414,305 |
| Straight-line rents | 1,187 | 7,066 | (5,879) | 10,124 | 21,449 | 1,887 | 102 | (191) | (163) | 13,007 |
| Above/below market rent amortization | 1,628 | 2,694 | (1,066) | 700 | 123 | 1,016 | 254 | - | (1) | 3,344 |
| Total rents | 330,036 | 331,647 | (1,611) | 63,892 | 38,842 | 4,720 | 1,438 | 32,008 | 40,406 | 430,656 |
| Tenant reimbursements | 68,073 | 64,389 | 3,684 | 11,009 | 4,280 | 2,327 | 516 | 1,216 | 3,435 | 82,625 |
| Termination fees | 1,763 | 1,893 | (130) | - | 466 | - | - | - | 11 | 1,763 |
| Third party management fees, labor reimbursement and leasing | - | - | - | - | - | - | - | 22,557 | 28,345 | 22,557 |
| Other | 1,617 | 1,803 | (186) | 3,290 | 1,504 | 9 | 32 | 1,828 | 1,486 | 6,744 |
| Total revenue | 401,489 | 399,732 | 1,757 | 78,191 | 45,092 | 7,056 | 1,986 | 57,609 | 73,683 | 544,345 |
| Property operating expenses (d) | 118,776 | 116,704 | (2,072) | 25,663 | 18,503 | 3,200 | 1,133 | 7,133 | 14,495 | 154,772 |
| Real estate taxes | 40,903 | 35,759 | (5,144) | 3,627 | 1,517 | 875 | 340 | 5,936 | 7,588 | 51,341 |
| Third party management expenses | - | - | - | - | - | - | - | 11,910 | 9,960 | 11,910 |
| Net operating income | 241,810 | 247,269 | (5,459) | 48,901 | 25,072 | 2,981 | 513 | 32,630 | 41,640 | 326,322 |
| Depreciation and amortization | 126,563 | 132,483 | 5,920 | 30,741 | 21,923 | 3,768 | 4,692 | 13,187 | 20,259 | 174,259 |
| General & administrative expenses | - | - | - | - | - | - | - | 27,802 | 28,538 | 27,802 |
| Provision for impairment (e) | - | - | - | - | - | - | - | 71,707 | 3,057 | 71,707 |
| Net gain on disposition of real estate | | | | | | | | | | (2,932 |
| Net gain on sale of undepreciated real estate | | | | | | | | | | (3,040 |
| | $115,247 | $114,786 | $461 | $18,160 | $3,149 | $(787) | $(4,179) | $(80,066) | $(10,214) | $58,526 |

| | | | | | |
|---|---|---|---|---|---|
| Operating income (loss) | | | | | |
| Number of properties | 73 | 73 | 20 | 4 | 97 |
| Square feet | 13,000 | 13,000 | 3,274 | 503 | 16,777 |
| Core Occupancy % (f) | 93.2 % | 93.6 % | 93.6 % | | |
| Other Income (Expense): | | | | | |
| Interest income | | | | | 4,703 |
| Interest expense | | | | | (78,199 |
| Interest expense — Deferred financing costs | | | | | (2,498 |
| Equity in loss of Real Estate Ventures | | | | | (15,231 |
| Net gain on real estate venture transactions | | | | | 142,233 |
| Gain on promoted interest in unconsolidated real estate venture | | | | | 28,283 |
| Loss on early extinguishment of debt | | | | | (105 |
| Income tax (provision) benefit | | | | | (423 |
| Net income | | | | | $137,289 |
| Net income attributable to Common Shareholders of Brandywine Realty Trust | | | | | $0.76 |

EXPLANATORY NOTES

(a) Results include: five properties recently completed, and 15 acquisitions.
(b) Results include: one development and three redevelopment properties.
(c) Represents certain revenues and expenses at the corporate level as well as various intercompany costs that are eliminated in consolidation, third-party management fees and provisions for impairment. Other/ (Eliminations) also includes properties sold that do not qualify as discontinued operations and properties classified as held for sale.
(d) Same Store Property Portfolio results exclude $1.6 million and $0.4 million for the years ended December 31, 2018 and 2017, respectively, of bad debt expense related to periods prior to January 1, 2017, associated with a tenant in the Philadelphia CBD segment. This is presented in Other (Eliminations).

(e) Impairment charges are excluded from Same Store Property Portfolio operating income and presented in Other (Eliminations).
(f) Pertains to Core Properties (i.e. not under development or redevelopment).

*Total Revenue*

Cash rents from the Total Portfolio increased by $33.5 million from 2017 to 2018, primarily attributable to:

- $35.8 million increase from Recently Completed/Acquired Properties primarily related to the expiration of free rent periods for tenants within the FMC Tower, as well as cash rent received from the DRA Austin Venture properties that we acquired during the fourth quarter of 2018;
- $5.3 million increase in the Same Store Property Portfolio due to positive cash rent growth and free rent converting to cash rent, primarily in the Philadelphia CBD segment; and
- $0.7 million increase from Development/Redevelopment Properties, primarily attributable to The Bulletin Building, an office property acquired during the fourth quarter of 2017

The increase of $41.8 million in total revenue was offset by an $8.3 million decrease due to the disposition of 30 properties during 2017 and 2018 (the "2017 and 2018 Dispositions").

Straight-line rents decreased by $15.4 million from free rent converting to cash rent from 2017 to 2018, of which $11.3 million related to Recently Completed/Acquired Properties, primarily the FMC Tower, which is located in the Philadelphia CBD segment and $5.9 million in the Same Store Property Portfolio, primarily the Philadelphia CBD segment. These decreases were offset by a $1.8 million increase from Development/Redevelopment Properties, primarily related to The Bulletin Building, which was acquired during the fourth quarter of 2017.

Tenant reimbursements from the Total Portfolio increased $10.0 million from 2017 to 2018, due to an increase of $6.7 million from Recently Completed/Acquired Properties due to the expiration of free rent periods for tenants within the FMC Tower and the acquisition of the DRA Austin venture properties, an increase of $3.7 million in the Same Store Property Portfolio, primarily due to increased operating costs at our Philadelphia CBD segment and Austin, Texas segment, and a $1.8 million increase from Development/Redevelopment Properties, relating to The Bulletin Building, which was acquired during the fourth quarter of 2017. These increases were partially offset by a decrease of $2.2 million from the 2017 and 2018 Dispositions.

Termination fees decreased $0.6 million from 2017 to 2018, due to the timing and volume of early tenant move-outs during 2018 when compared to 2017.

Third party management fees, labor reimbursement and leasing income decreased $5.8 million from 2017 to 2018, due primarily to decreases in third party management and development fees. The decreases include $5.2 million of construction management fees related to the Subaru Headquarters development, which was substantially complete as of December 31, 2017, $2.9 million of third party management fees relates to the sale of the properties within the Austin Venture and $0.5 million related to the fourth quarter of 2018 sale of three office properties and the third quarter of 2017 sale of one office property held by our BDN – AI Venture. These decreases were offset by a $2.8 million increase in construction management fees, primarily relating to the MAP Venture.

Other income at our Total Portfolio increased by $1.9 million from 2017 to 2018, which was primarily related to restaurant income from Walnut Street Café at the FMC Tower, which was placed into service at the end of the second quarter of 2017.

Property Operating Expenses

Property operating expenses across our Total Portfolio increased $3.9 million from 2017 to 2018, of which $7.2 million relates to Recently Completed/Acquired Properties, primarily from the FMC Tower, which was fully placed into service during the second quarter of 2017, as well as the twelve properties acquired from the DRA Austin venture during the fourth quarter of 2018. An additional increase of $0.6 million is due to marketing costs relating to business

development efforts and costs associated with parking operations, both within our Philadelphia CBD segment. Development/Redevelopment Properties increased $2.1 million, primarily because of The Bulletin Building, which was acquired during the fourth quarter of 2017 and immediately placed into redevelopment. The Same Store Portfolio increased $2.1 million, primarily related to our Philadelphia CBD segment. These increases were partially offset by a $4.9 million decrease related to the 2017 and 2018 Dispositions, a $1.9 million decrease due to the write-off of a prior period straight line rent receivable related to an early termination, $0.7 million in salary expense reductions relating from the sale of properties from unconsolidated real estate ventures that we manage and a $0.5 million reduction in development salary due to increased capitalization at our development/redevelopment projects.

Real Estate Taxes

Real estate taxes across our Total Portfolio increased by $6.1 million from 2017 to 2018, of which $5.1 million relates to increased real estate tax assessments at the Same Store Property Portfolio, primarily in the Philadelphia CBD segment, $2.1 million related to Recently Completed/Acquired Properties and $0.5 million related to Development/Redevelopment Properties. These increases were partially offset by decreases of $1.6 million from the 2017 and 2018 Dispositions.

*Depreciation and Amortization*

Depreciation and amortization expense decreased by $5.1 million from 2017 to 2018, of which $8.8 million relates to an increase in depreciation expense from Recently Completed/Acquired Properties, primarily due to the acquisition of our partner's 50% ownership interest in the twelve remaining properties within our DRA Austin venture during the fourth quarter of 2018, the office component of FMC Tower being fully placed into service during the second quarter of 2017 as well as Four Tower Bridge, which was acquired in January 2018. This increase was offset by a $6.3 million decrease relating to the 2017 and 2018 Dispositions, a $5.9 million decrease to fully amortized intangible assets at the Same Store Property Portfolio, which is directly attributable to a reduction in intangible asset amortization related to the Broadmoor portfolio, located in our Austin, Texas segment which was acquired during the second quarter of 2015, a $0.9 decrease from Development/Redevelopment Properties and a $0.8 million decrease related to assets in our Other segment that were fully depreciated during the third quarter of 2017.

General and Administrative Expenses

General and administrative expenses across our Total Portfolio decreased by $0.7 million from 2017 to 2018, due to a $1.6 million decrease in professional fees, offset by a $0.9 million increase in payroll related costs in 2018.

Provision for Impairment

During 2018, we recognized a provision for impairment of $71.7 million which consists of the following:

- $56.9 million impairment charge related to the disposition of eight office properties in our Metropolitan Washington, D.C. segment; and
- $14.8 million held for use impairment charge on an office property in our Metropolitan Washington, D.C. segment.

During 2017, we recognized a provision for impairment of $3.1 million consisting of the following:

- $0.3 million impairment charge recorded related to one land parcel consisting of 50 acres in our Other Segment;
- $1.7 million of additional impairment charges recorded related to three office properties located in our Metropolitan Washington D.C. Segment. This impairment charge was a result of a purchase price adjustment that occurred subsequent to recording a $3.0 million impairment charge related to these three properties during the year ended December 31, 2016; and
- $1.0 million held for use impairment charge recorded related to four properties in our Other Segment during the quarter ended March 31, 2017.

See Note 3, *"Real Estate Investments,"* to our Consolidated Financial Statements for further information related to these impairments.

Net Gain on Disposition of Real Estate

The $3.0 million gain on disposition of real estate for 2018 resulted from the following sales transactions:

- $2.6 million on the sale of the Subaru NTSC, located in Camden, New Jersey; and
- $0.4 million on the sale of eight properties in our Metropolitan Washington, D.C. segment

These gains were partially offset by an immaterial loss from the disposition of the office property at 20 East Clementon Road, in Gibbsboro, New Jersey.

The gain on disposition of real estate of $31.7 million recognized during 2017 resulted from the following sales transactions:

- $0.6 million on the sale of two office properties located in Concord, California;
- $6.5 million from the sale of the Marine Piers located in Philadelphia, Pennsylvania;

- $0.5 million of additional gain recognized on Cira Square, which was disposed of in the first quarter of 2016;
- $1.4 million on the sale of the retail property at 7000 Midlantic in Mount Laurel, New Jersey;
- $3.6 million for the sale of an office property in King of Prussia, Pennsylvania; and
- $19.6 million from the sale of five office properties in Newtown Square, Pennsylvania.

These gains were partially offset by a loss of $0.2 million, representing closing costs, on the sale of three office properties located in Cherry Hill, New Jersey and a loss of $0.3 million, representing closing costs, on the sale of four office properties located in Marlton, New Jersey known as the Evesham Corporate Center. See Item 2., "*Properties - Property Sales*," for further information.

Net Gain on Sale of Undepreciated Real Estate

The gain of $3.0 million recognized during 2018 primarily resulted from the recognition of a deferred gain from the sale of land parcels located at Garza Ranch in Austin, Texas.

The gain of $1.0 million recognized during 2017 resulted from the dispositions of Bishop's Gate land and 50 E. Swedesford Square, which generated gains of $0.1 million and $0.9 million, respectively.

Interest Expense

The $3.7 million decrease in interest expense from 2017 to 2018 was primarily due to the following;

- $15.6 million decrease related to the early retirement of the 2018 Unsecured Notes during the fourth quarter of 2017;
- $5.7 million decrease related to the repayment of the 2017 Unsecured Notes on May 1, 2017; and
- $1.6 million decrease related to interest expense incurred related to the Credit Facility, due to decreased borrowings during the year ended December 31, 2018 compared the year ended December 31, 2017.

The $22.9 million of decreases in interest expense described above were offset by the following;

- $15.9 million increase related to the issuance of the 2027 Unsecured Notes on November 17, 2017;
- $3.0 million increase related to the issuance of an additional $100.0 million of 2023 Unsecured Notes on November 17, 2017; and
- $0.3 million increase in variable interest expense related to our Trust Indenture IA compared to the year ended December 31, 2017.

Equity in Loss of Real Estate Ventures

The increase in equity in loss of Real Estate Ventures of $6.9 million from 2017 to 2018 is primarily due to the following:

- $2.6 million increase in equity in income incurred at the DRA Austin venture, primarily driven by reductions in interest expense and depreciation related to the sale of properties within the venture during the third quarter of 2017;
- $1.2 million decrease in equity in losses incurred at the MAP Venture, primarily driven by a decrease in interest expense due to the refinancing of its third party debt, on August 1, 2018, which resulted in a 380 basis point decrease in the borrowing spread over LIBOR;
- $4.1 million other than temporary impairment charge at the BDN – AI Venture during the fourth quarter of 2018 compared to a $4.8 million due to an other than temporary impairment charge at the BDN – AI Venture during the third quarter of 2017; and
- $0.4 million increase in equity in income at 1919 Market Street Venture due to savings on interest expense related to the repayment of $88.6 million in principal on its construction loan with a mortgage loan provided by the venture's partners which bears interest at a lower rate, during the second quarter of 2018.

These decreases were offset by $10.4 million related to our share of an impairment charge taken on two properties at the BDN – AI Venture during the fourth quarter of 2018, $0.8 million decrease from the sale of the evo at Cira Venture during the first quarter of 2018, a $0.5 million decrease from the Four and Seven Tower Bridge transaction, which resulted in the acquisition of the office property held by the Four Tower Bridge Venture, during the first quarter of 2018, and a decrease of $0.1 million resulting from the sale of the Parc at Plymouth Venture in 2017.

Net Gain from Real Estate Venture Transactions

The $142.2 million net gain from Real Estate Venture transactions during 2018 relates to the following:

- $103.8 million gain from the acquisition of the remaining properties with the DRA Austin venture;
- $25.7 million gain from the sale of the evo at Cira Centre South Venture;
- $11.6 million gain recognized on the exchange of our 20% interest in the Seven Tower Bridge Venture for the remaining 35% interest in the Four Tower Bridge Venture; and
- $1.1 million gain from the sale of BDN – AI Venture's Station Square properties.

*Gain on promoted interest in unconsolidated real estate venture*

During 2018 there was a gain on promoted interest in an unconsolidated real estate venture of $28.3 resulting from the acquisition of the remaining DRA Austin venture properties. See Item 2., "*Properties - Property Acquisitions*," for further information.

There was no comparable activity during 2017.

Loss on Early Extinguishment of Debt

During 2018, we repaid mortgage debt on properties included in the DRA Austin acquisition, which resulted in a net loss on early extinguishment of debt of $0.1 million.

During 2017, we repurchased $325.0 million of our 4.95% Guaranteed Notes due 2018, which resulted in a net loss on early extinguishment of debt of $3.9 million.

Net Income

Net income increased by $15.4 million from 2017 to 2018 as a result of the factors described above.

Net Income per Common Share – fully diluted

Net income per share was $0.76 during 2018 as compared to net income per share of $0.65 during 2017 as a result of the factors described above.

RESULTS OF OPERATIONS

Comparison of the Year Ended December 31, 2017 to the Year Ended December 31, 2016

The table below shows selected operating information for the "Same Store Property Portfolio" and the "Total Portfolio." The Same Store Property Portfolio consists of 83 properties containing an aggregate of approximately 14.3 million net rentable square feet, and represents properties that we owned for the twelve-month periods ended December 31, 2017 and 2016. The Same Store Property Portfolio includes properties acquired or placed in service on or prior to January 1, 2016 and owned through December 31, 2017. The Total Portfolio includes the effects of other properties that were either placed into service, acquired or redeveloped after January 1, 2016 or disposed prior to December 31, 2017. A property is excluded from our Same Store Property Portfolio and moved into Development/Redevelopment in the period that we determine to proceed with development/redevelopment 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 twelve-month periods ended December 31, 2017 and 2016) by providing information for the properties which were acquired, placed into service, under development or redevelopment and administrative/elimination information for the twelve-month periods ended December 31, 2017 and 2016.

During the year ended December 31, 2017, the Same Store Property Portfolio was reduced by 14 properties, containing 934,961 rentable square feet, due to sales. The office property, containing 62,991 rentable square feet, at 426 West Lancaster Avenue in Devon, Pennsylvania was removed from the Same Store Property Portfolio and placed into redevelopment. Three properties, containing 98,388 rentable square feet, located in Gibbsboro, New Jersey were removed from the Same Store Property Portfolio because they were taken out of service with no plan to relet. Six office properties, containing 967,661 rentable square feet, located in Austin, Texas were moved into the Same Store Property Portfolio, as they were purchased June 22, 2015. In addition, the property at 618 Market Street, a mixed-use parking garage containing 15,878 rentable square feet, in Philadelphia, Pennsylvania was moved into the Same Store Property Portfolio, as it was acquired April 2, 2015.

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

***Comparison of Year Ended December 31, 2017 to the Year Ended December 31, 2016***

| | Same Store Property Portfolio | | | Recently Completed/Acquired Properties (a) | | Development/Redevelopment Properties (b) | | Other (Eliminations) (c) | | Total P |
|---|---|---|---|---|---|---|---|---|---|---|
| (dollars and square feet in thousands) | 2017 | 2016 | Increase/ (Decrease) | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 |
| Revenue: | | | | | | | | | | |
| Cash rents | $355,773 | $337,993 | $17,780 | $10,803 | $6,752 | $7,471 | $2,207 | $6,762 | $38,949 | $380,8 |
| Straight-line rents | 7,250 | 20,774 | (13,524) | 21,158 | 8,378 | 392 | (34) | (347) | (43) | 28,45 |
| Above/below market rent amortization | 2,694 | 6,648 | (3,954) | 123 | (351) | 254 | 232 | - | - | 3,071 |
| Total rents | 365,717 | 365,415 | 302 | 32,084 | 14,779 | 8,117 | 2,405 | 6,415 | 38,906 | 412,3 |
| Tenant reimbursements | 66,124 | 61,747 | 4,377 | 4,154 | 1,071 | 642 | 400 | 1,700 | 7,411 | 72,62 |
| Termination fees | 1,893 | 660 | 1,233 | 466 | 1,619 | - | - | 11 | 60 | 2,370 |
| Third party management fees, labor reimbursement and leasing | - | - | - | - | - | - | - | 28,345 | 26,674 | 28,34 |
| Other | 2,056 | 1,744 | 312 | 57 | 27 | 1,448 | 107 | 1,264 | 2,438 | 4,825 |
| Total revenue | 435,790 | 429,566 | 6,224 | 36,761 | 17,496 | 10,207 | 2,912 | 37,735 | 75,489 | 520,4 |
| Property operating expenses (d) | 126,463 | 124,154 | (2,309) | 10,394 | 5,917 | 8,955 | 1,855 | 5,023 | 21,000 | 150,8 |
| Real estate taxes | 39,928 | 39,061 | (867) | 899 | 707 | 932 | 343 | 3,445 | 6,141 | 45,20 |
| Third party management expenses | - | - | - | - | - | - | - | 9,960 | 10,270 | 9,960 |
| Net operating income | 269,399 | 266,351 | 3,048 | 25,468 | 10,872 | 320 | 714 | 19,307 | 38,078 | 314,4 |
| Depreciation and amortization | 152,135 | 166,614 | 14,479 | 16,505 | 8,865 | 6,463 | 1,922 | 4,254 | 12,275 | 179,3 |
| General & administrative expenses | - | - | - | - | - | - | - | 28,538 | 26,596 | 28,53 |
| Provision for impairment (e) | - | - | - | - | - | - | - | 3,057 | 40,517 | 3,057 |
| Net gain on sale of disposition of real estate | | | | | | | | | | (31,6 |
| Net gain on sale of undepreciated | | | | | | | | | | (953 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| real estate | | | | | | | | | | |
| Operating income (loss) | $117,264 | $99,737 | $17,527 | $8,963 | $2,007 | $(6,143 ) | $(1,208) | $(16,542) | $(41,310) | $136,1 |
| Number of properties | 83 | 83 | | 4 | | 6 | | | | 93 |
| Square feet | 14,331 | 14,331 | | 1,253 | | 829 | | | | 16,41 |
| Core Occupancy % (f) | 93.2 % | 94.8 % | | 89.3 % | | | | | | |
| Other Income (Expense): | | | | | | | | | | |
| Interest income | | | | | | | | | | 1,113 |
| Interest expense | | | | | | | | | | (81,8 |
| Interest expense — Deferred financing costs | | | | | | | | | | (2,43 |
| Interest expense —Financing obligation | | | | | | | | | | - |
| Equity in loss of real estate ventures | | | | | | | | | | (8,30 |
| Net gain on real estate venture transactions | | | | | | | | | | 80,52 |
| Loss on early extinguishment of debt | | | | | | | | | | (3,93 |