BRANDYWINE REALTY TRUST
Form 10-Q
May 03, 2019

BRANDYWINE REALTY TRUST BRANDYWINE OPERATING PARTNERSHIP, L.P. 0000790816 0001060386 --12-31 --12-31 Large Accelerated Filer Non-accelerated Filer false false false false 2019 2019 Q1 Q1 false false 2020-03-01 P2Y P2Y P57Y P10Y P3Y P3Y 0 20653000 0 3144000 0 182000 0 2042000 0 9940000 1080000 1112000 4503000 792000 0 20653000 0 3144000 0 182000 0 2042000 0 9940000 1080000 1112000 4503000 792000 P53Y2M12D 0.0110 0.0125 2020-05-31 2021-02-28 2023-04-30 2023-04-30 2022-07-31 2022-10-31 2023-02-28 2024-10-31 2027-11-30 2029-10-31 2035-03-31 2035-04-30 2035-07-31 0000790816 2019-01-01 2019-03-31 0000790816 srt:SubsidiariesMember 2019-01-01 2019-03-31 xbrli:shares 0000790816 2019-04-26 iso4217:USD 0000790816 2019-03-31 0000790816 2018-12-31 iso4217:USD xbrli:shares 0000790816 bdn:RentsMember 2019-01-01 2019-03-31 0000790816 bdn:RentsMember 2018-01-01 2018-03-31 0000790816 bdn:ThirdPartyManagementRevenueMember 2019-01-01 2019-03-31 0000790816 bdn:ThirdPartyManagementRevenueMember 2018-01-01 2018-03-31 0000790816 us-gaap:RealEstateOtherMember 2019-01-01 2019-03-31 0000790816 us-gaap:RealEstateOtherMember 2018-01-01 2018-03-31 0000790816 2018-01-01 2018-03-31 0000790816 us-gaap:CommonStockMember 2018-12-31 0000790816 us-gaap:DeferredCompensationShareBasedPaymentsMember 2018-12-31 0000790816 us-gaap:AdditionalPaidInCapitalMember 2018-12-31 0000790816 bdn:CommonStockHeldInTrustMember 2018-12-31 0000790816 us-gaap:RetainedEarningsMember 2018-12-31 0000790816 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-12-31 0000790816 us-gaap:AccumulatedDistributionsInExcessOfNetIncomeMember 2018-12-31 0000790816 us-gaap:NoncontrollingInterestMember 2018-12-31 0000790816 us-gaap:RetainedEarningsMember 2019-01-01 2019-03-31 0000790816 us-gaap:NoncontrollingInterestMember 2019-01-01 2019-03-31 0000790816 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2019-01-01 2019-03-31 0000790816 us-gaap:CommonStockMember 2019-01-01 2019-03-31 0000790816 us-gaap:AdditionalPaidInCapitalMember 2019-01-01 2019-03-31 0000790816 us-gaap:DeferredCompensationShareBasedPaymentsMember 2019-01-01 2019-03-31 0000790816 bdn:CommonStockHeldInTrustMember 2019-01-01 2019-03-31 0000790816 us-gaap:AccumulatedDistributionsInExcessOfNetIncomeMember 2019-01-01 2019-03-31 0000790816 us-gaap:CommonStockMember 2019-03-31 0000790816 us-gaap:DeferredCompensationShareBasedPaymentsMember 2019-03-31 0000790816 us-gaap:AdditionalPaidInCapitalMember 2019-03-31 0000790816 bdn:CommonStockHeldInTrustMember 2019-03-31 0000790816 us-gaap:RetainedEarningsMember 2019-03-31 0000790816 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2019-03-31 0000790816 us-gaap:AccumulatedDistributionsInExcessOfNetIncomeMember 2019-03-31 0000790816 us-gaap:NoncontrollingInterestMember 2019-03-31 0000790816 us-gaap:CommonStockMember 2017-12-31 0000790816 us-gaap:DeferredCompensationShareBasedPaymentsMember 2017-12-31 0000790816 us-gaap:AdditionalPaidInCapitalMember 2017-12-31 0000790816 bdn:CommonStockHeldInTrustMember 2017-12-31 0000790816 us-gaap:RetainedEarningsMember 2017-12-31 0000790816 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-12-31 0000790816 us-gaap:AccumulatedDistributionsInExcessOfNetIncomeMember 2017-12-31 0000790816 us-gaap:NoncontrollingInterestMember 2017-12-31 0000790816 2017-12-31 0000790816 us-gaap:RetainedEarningsMember 2018-01-01 2018-03-31 0000790816 us-gaap:NoncontrollingInterestMember 2018-01-01 2018-03-31 0000790816 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-01-01 2018-03-31 0000790816 us-gaap:CommonStockMember 2018-01-01 2018-03-31 0000790816 us-gaap:AdditionalPaidInCapitalMember 2018-01-01 2018-03-31 0000790816 us-gaap:DeferredCompensationShareBasedPaymentsMember 2018-01-01 2018-03-31 0000790816 bdn:CommonStockHeldInTrustMember 2018-01-01 2018-03-31 0000790816 us-gaap:AccumulatedDistributionsInExcessOfNetIncomeMember 2018-01-01 2018-03-31 0000790816 us-gaap:CommonStockMember 2018-03-31 0000790816 us-gaap:DeferredCompensationShareBasedPaymentsMember 2018-03-31 0000790816 us-gaap:AdditionalPaidInCapitalMember 2018-03-31 0000790816 bdn:CommonStockHeldInTrustMember

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0000790816 us-gaap:ExecutiveOfficerMember bdn:March012017RSPUGrantMember bdn:RestrictedPerformanceShareUnitsPlanMember 2019-03-31 0000790816 us-gaap:ExecutiveOfficerMember bdn:February282018RSPUGrantMember bdn:RestrictedPerformanceShareUnitsPlanMember 2019-03-31 0000790816 us-gaap:ExecutiveOfficerMember bdn:February212019RSPUGrantMember bdn:RestrictedPerformanceShareUnitsPlanMember 2019-03-31 0000790816 us-gaap:ExecutiveOfficerMember bdn:RestrictedPerformanceShareUnitsPlanMember 2019-03-31 0000790816 bdn:RestrictedPerformanceShareUnitsPlanMember us-gaap:ExecutiveOfficerMember 2017-03-01 0000790816 bdn:RestrictedPerformanceShareUnitsPlanMember us-gaap:ExecutiveOfficerMember 2018-02-28 0000790816 bdn:RestrictedPerformanceShareUnitsPlanMember us-gaap:ExecutiveOfficerMember 2019-02-21 0000790816 bdn:RestrictedPerformanceShareUnitsPlanMember us-gaap:ExecutiveOfficerMember 2017-02-28 2017-03-01 0000790816 bdn:RestrictedPerformanceShareUnitsPlanMember us-gaap:ExecutiveOfficerMember 2018-02-27 2018-02-28 0000790816 bdn:RestrictedPerformanceShareUnitsPlanMember us-gaap:ExecutiveOfficerMember 2019-02-20 2019-02-21 0000790816 bdn:RestrictedPerformanceShareUnitsPlanMember 2019-01-01 2019-03-31 0000790816 bdn:RestrictedPerformanceShareUnitsPlanMember 2018-01-01 2018-03-31 0000790816 bdn:RestrictedPerformanceShareUnitsPlanMember 2019-03-31 0000790816 bdn:RestrictedPerformanceShareUnitsPlanMember 2019-02-01 2019-02-01 0000790816 bdn:RestrictedPerformanceShareUnitsPlanMember 2018-01-01 2018-12-31 0000790816 bdn:RestrictedPerformanceShareUnitsPlanMember 2019-01-22 bdn:segment 0000790816 bdn:PhiladelphiaCBDMember 2019-03-31 0000790816 bdn:PhiladelphiaCBDMember 2018-12-31 0000790816 bdn:PennsylvaniaSuburbsMember 2019-03-31 0000790816 bdn:PennsylvaniaSuburbsMember 2018-12-31 0000790816 bdn:AustinTexasMember 2019-03-31 0000790816 bdn:AustinTexasMember 2018-12-31 0000790816 bdn:MetropolitanDCMember 2019-03-31 0000790816 bdn:MetropolitanDCMember 2018-12-31 0000790816 us-gaap:AllOtherSegmentsMember 2019-03-31 0000790816 us-gaap:AllOtherSegmentsMember 2018-12-31 0000790816 us-gaap:AllOtherSegmentsMember us-gaap:DisposalGroupHeldforsaleNotDiscontinuedOperationsMember bdn:LandHeldForDevelopmentMember 2019-03-31 0000790816 us-gaap:DisposalGroupHeldforsaleNotDiscontinuedOperationsMember bdn:LandHeldForDevelopmentMember 2018-12-31 0000790816 bdn:PennsylvaniaSuburbsMember us-gaap:DisposalGroupHeldforsaleNotDiscontinuedOperationsMember bdn:LandHeldForDevelopmentMember 2018-12-31 0000790816 us-gaap:AllOtherSegmentsMember us-gaap:DisposalGroupHeldforsaleNotDiscontinuedOperationsMember bdn:LandHeldForDevelopmentMember 2018-12-31 0000790816 bdn:ThreeThousandOneAndThreeThousandThreeAndThreeThousandTwentyFiveJFKBoulevardMember 2019-01-01 2019-03-31 0000790816 bdn:ThreeThousandOneAndThreeThousandThreeAndThreeThousandTwentyFiveJFKBoulevardMember 2018-01-01 2018-12-31 0000790816 bdn:PhiladelphiaCBDMember us-gaap:OperatingSegmentsMember 2019-01-01 2019-03-31 0000790816 bdn:PennsylvaniaSuburbsMember us-gaap:OperatingSegmentsMember 2019-01-01 2019-03-31 0000790816 bdn:AustinTexasMember us-gaap:OperatingSegmentsMember 2019-01-01 2019-03-31 0000790816 bdn:MetropolitanDCMember us-gaap:OperatingSegmentsMember 2019-01-01 2019-03-31 0000790816 us-gaap:AllOtherSegmentsMember us-gaap:OperatingSegmentsMember 2019-01-01 2019-03-31 0000790816 us-gaap:CorporateNonSegmentMember 2019-01-01 2019-03-31 0000790816 bdn:PhiladelphiaCBDMember us-gaap:OperatingSegmentsMember 2018-01-01 2018-03-31 0000790816 bdn:PennsylvaniaSuburbsMember us-gaap:OperatingSegmentsMember 2018-01-01 2018-03-31 0000790816 bdn:AustinTexasMember us-gaap:OperatingSegmentsMember 2018-01-01 2018-03-31 0000790816 bdn:MetropolitanDCMember us-gaap:OperatingSegmentsMember 2018-01-01 2018-03-31 0000790816 us-gaap:AllOtherSegmentsMember us-gaap:OperatingSegmentsMember 2018-01-01 2018-03-31 0000790816 us-gaap:CorporateNonSegmentMember 2018-01-01 2018-03-31 0000790816 bdn:DRAAustinVentureMember 2018-12-11 0000790816 bdn:HerndonInnovationCenterMetroPortfolioVentureLLCMember bdn:MetropolitanDCOfficeMember 2018-12-20 0000790816 bdn:HerndonInnovationCenterMetroPortfolioVentureLLCMember bdn:MetropolitanDCOfficeMember bdn:RockpointMember 2018-12-20 0000790816 bdn:MAPVentureMember 2019-03-31 0000790816 bdn:MAPVentureMember 2018-12-31 0000790816 bdn:PhiladelphiaCBDMember 2019-01-01 2019-03-31 0000790816 bdn:MetropolitanDCMember 2019-01-01 2019-03-31 0000790816 bdn:MAPVentureMember

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2019

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

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

Brandywine Realty Trust:

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

Brandywine Operating Partnership, L.P.:

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

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

A total of 176,137,761 Common Shares of Beneficial Interest, par value $0.01 per share of Brandywine Realty Trust, were outstanding as of April 26, 2019.

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares of Beneficial Interest	BDN	NYSE

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended March 31, 2019 of Brandywine Realty Trust (the "Parent Company") and Brandywine Operating Partnership L.P. (the "Operating Partnership"). The Parent Company is a Maryland real estate investment trust, or REIT, that owns its assets and conducts its operations through the Operating Partnership, a Delaware limited partnership, and subsidiaries of the Operating Partnership. The Parent Company, the Operating Partnership and their consolidated subsidiaries are collectively referred to in this report as the "Company". In addition, as used in this report, terms such as "we", "us", and "our" may refer to the Company, the Parent Company, or the Operating Partnership.

The Parent Company is the sole general partner of the Operating Partnership and, as of March 31, 2019, 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.

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

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

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

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

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

The equity and non-controlling interests in the Parent Company and the Operating Partnership's equity are the main areas of difference between the consolidated financial statements of the Parent Company and the Operating

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

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

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

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

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

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Filing Format

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

PART I - FINANCIAL INFORMATION

Item 1. — Financial Statements

BRANDYWINE REALTY TRUST

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share information)

	March 31, 2019 (unaudited)	December 31, 2018
ASSETS		
Real estate investments:		
Operating properties	$4,015,879	$3,953,319
Right of use asset - operating leases	22,175	-
Accumulated depreciation	(891,125)	(865,462)
Operating real estate investments, net	3,146,929	3,087,857
Construction-in-progress	112,176	150,263
Land held for development	88,047	86,401
Prepaid leasehold interests in land held for development, net	39,897	39,999
Total real estate investments, net	3,387,049	3,364,520
Assets held for sale, net	7,345	11,599
Cash and cash equivalents	14,449	22,842
Accounts receivable, net of allowance of $284 and $1,653 as of March 31, 2019 and December 31, 2018, respectively	21,780	16,394
Accrued rent receivable, net of allowance of $11,018 and $11,266 as of March 31, 2019 and December 31, 2018, respectively	168,781	165,243
Investment in Real Estate Ventures, equity method	161,568	169,100
Deferred costs, net	95,293	91,075
Intangible assets, net	119,903	131,348
Other assets	139,761	126,400
Total assets	$4,115,929	$4,098,521
LIABILITIES AND BENEFICIARIES' EQUITY		
Mortgage notes payable, net	$319,132	$320,869
Unsecured credit facility	160,500	92,500
Unsecured term loan, net	248,168	248,042
Unsecured senior notes, net	1,366,997	1,366,635
Accounts payable and accrued expenses	112,375	125,696
Distributions payable	34,107	33,632
Deferred income, gains and rent	24,749	28,293
Acquired lease intangibles, net	29,813	31,783
Lease liability - operating leases	22,402	-
Other liabilities	16,194	18,498
Total liabilities	$2,334,437	$2,265,948
Commitments and contingencies (See Note 14)		

Brandywine Realty Trust's Equity:		
Common Shares of Brandywine Realty Trust's beneficial interest, $0.01 par value; shares authorized 400,000,000; 176,001,580 and 176,873,324 issued and outstanding as of March 31, 2019 and December 31, 2018, respectively	1,761	1,770
Additional paid-in-capital	3,187,312	3,200,850
Deferred compensation payable in common shares	14,640	14,021
Common shares in grantor trust, 1,012,542 and 977,120 issued and outstanding as of March 31, 2019 and December 31, 2018, respectively	(14,640)	(14,021)
Cumulative earnings	795,186	796,513
Accumulated other comprehensive income	2,560	5,029
Cumulative distributions	(2,217,469)	(2,183,909)
Total Brandywine Realty Trust's equity	1,769,350	1,820,253
Noncontrolling interests	12,142	12,320
Total beneficiaries' equity	$ 1,781,492	$ 1,832,573
Total liabilities and beneficiaries' equity	$ 4,115,929	$ 4,098,521

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

BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three-month periods ended March 31, 2019			2018		
Revenue						
Rents	$	138,098		$	126,759	
Third party management fees, labor reimbursement and leasing		3,955			7,674	
Other		1,843			1,925	
Total revenue		143,896			136,358	
Operating expenses						
Property operating expenses		39,481			39,332	
Real estate taxes		15,783			12,422	
Third party management expenses		2,117			4,750	
Depreciation and amortization		51,980			43,291	
General and administrative expenses		9,844			8,723	
Total operating expenses		119,205			108,518	
Gain on sale of real estate						
Net gain on sale of undepreciated real estate		1,001			22	
Total gain on sale of real estate		1,001			22	
Operating income		25,692			27,862	
Other income (expense):						
Interest income		525			703	
Interest expense		(20,357	)		(19,533	)
Interest expense - amortization of deferred financing costs		(666	)		(627	)
		(1,358	)		(825	)

Equity in loss of Real Estate Ventures						
Net gain on real estate venture transactions		259			37,263	
Net income before income taxes		4,095			44,843	
Income tax provision		(29	)		(138	)
Net income		4,066			44,705	
Net income attributable to noncontrolling interests		(57	)		(376	)
Net income attributable to Brandywine Realty Trust		4,009			44,329	
Nonforfeitable dividends allocated to unvested restricted shareholders		(119	)		(114	)
Net income attributable to Common Shareholders of Brandywine Realty Trust	$	3,890		$	44,215	
Basic income per Common Share	$	0.02		$	0.25	
Diluted income per Common Share	$	0.02		$	0.25	
Basic weighted average shares outstanding		175,857,358			178,395,525	
Diluted weighted average shares outstanding		176,464,218			179,788,311	

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

BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, in thousands)

	Three-month periods ended March 31,	
	2019	2018
Net income	$4,066	$44,705
Comprehensive income (loss):		
Unrealized gain (loss) on derivative financial instruments	(2,689)	4,696
Amortization of interest rate contracts (1)	206	312
Comprehensive income (loss):	(2,483)	5,008
Comprehensive income	1,583	49,713
Comprehensive income attributable to noncontrolling interest	(43)	(418)
Comprehensive income attributable to Brandywine Realty Trust	$1,540	$49,295

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

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

BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENTS OF BENEFICIARIES' EQUITY

For the three-month period ended March 31, 2019

(unaudited, in thousands, except number of shares)

	Number of Common Shares	Number of Rabbi Trust/Deferred Compensation Shares	Common Shares of Brandywine Realty Trust's beneficial interest	Additional Paid-in Capital	Deferred Compensation Payable in Common Shares	Common Shares in Grantor Trust	Cumulative Earnings	Accumulated Other Comprehensive Income (Loss)	Cumulative Distributions	N I
BALANCE, December 31, 2018	176,873,324	977,120	$1,770	$3,200,850	$14,021	$(14,021)	$796,513	$5,029	$(2,183,909)	$
Cumulative effect of accounting change							(5,336)			
Net income							4,009			
Other comprehensive income								(2,469)		
Repurchase and retirement of Common Shares of Beneficial Interest	(1,337,169)		(13)	(17,268)						
Issuance of partnership interest in consolidated real estate ventures										
Share-based compensation activity	465,883	41,342	4	3,673						
Share Issuance from/(to) Deferred Compensation Plan	(458)	(5,920)			619	(619)				
Reallocation of Noncontrolling				57						

interest										
Distributions declared (0.19 per share)									(33,560)	
BALANCE, March 31, 2019	176,001,580	1,012,542	$1,761	$3,187,312	$14,640	$(14,640)	$795,186	$2,560	$(2,217,469)	$

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

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BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENT OF BENEFICIARIES' EQUITY

For the three-month period ended March 31, 2018

(unaudited, in thousands, except number of shares)

	Number of Common Shares	Number of Rabbi Trust/Deferred Compensation Shares	Common Shares of Brandywine Realty Trust's beneficial interest	Additional Paid-in Capital	Deferred Compensation Payable in Common Shares	Common Shares in Grantor Trust	Cumulative Earnings	Accumulated Other Comprehensive Income	Cumulative Distributions	Nonc Inter
BALANCE, December 31, 2017	178,285,236	894,736	$1,784	$3,218,564	$12,445	$(12,445)	$660,174	$2,399	$(2,053,741)	$17,
Net income							44,329			376
Other comprehensive income								4,966		42
Issuance of Common Shares of Beneficial Interest	23,311			416						
Issuance of partnership interest in consolidated real estate ventures										15
Distributions from consolidated real estate ventures										(54
Share-based compensation activity	68,425		1	3,072			3			
Share Issuance from/(to) Deferred Compensation Plan	66,830	53,856			1,061	(1,061)				

Share Choice Plan issuance	(1,285)									
Reallocation of Noncontrolling interest				(5)						5
Distributions declared (0.18 per share)									(32,259)	(26
BALANCE, March 31, 2018	178,442,517	948,592	$1,785	$3,222,047	$13,506	$(13,506)	$704,506	$7,365	$(2,086,000)	$17,

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

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BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

	Three-month periods ended March 31, 2019	2018
Cash flows from operating activities:		
Net income	$4,066	$44,705
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	51,980	43,291
Amortization of deferred financing costs	666	627
Amortization of debt discount/(premium), net	175	176
Amortization of stock compensation costs	3,449	3,265
Straight-line rent income	(4,165)	(4,978)
Amortization of acquired above (below) market leases, net	(1,805)	(793)
Straight-line ground rent expense	351	22
Provision for doubtful accounts	-	467
Net gain on real estate venture transactions	-	(37,263)
Net gain on sale of interests in real estate	(1,001)	(22)
Income from Real Estate Ventures, net of distributions	1,159	2,209
Income tax provision	29	138
Changes in assets and liabilities:		
Accounts receivable	(3,539)	(646)
Other assets	(39,088)	(12,911)
Accounts payable and accrued expenses	(10,822)	(1,146)
Deferred income, gains and rent	(3,148)	2,295
Other liabilities	19,459	(738)
Net cash provided by operating activities	17,766	38,698
Cash flows from investing activities:		
Acquisition of properties	-	(24,946)
Proceeds from the sale of properties	5,273	14,921
Proceeds from real estate venture sales	259	42,953
Proceeds from repayment of mortgage notes receivable	15	562
Capital expenditures for tenant improvements	(14,978)	(16,569)
Capital expenditures for redevelopments	(10,777)	(2,429)
Capital expenditures for developments	(18,645)	(19,387)
Advances for the purchase of tenant assets, net of repayments	(1,615)	316
Investment in unconsolidated Real Estate Ventures	(182)	(261)
Deposits for real estate	3,152	(162)
Capital distributions from Real Estate Ventures	1,851	1,951
Leasing costs paid	(5,696)	(3,120)
Net cash used in investing activities	(41,343)	(6,171)
Cash flows from financing activities:		
Repayments of mortgage notes payable	(1,871)	(1,317)
Proceeds from credit facility borrowings	198,000	-
Repayments of credit facility borrowings	(130,000)	-

Proceeds from the exercise of stock options	800	-
Proceeds from the issuance of common shares	-	416
Shares used for employee taxes upon vesting of share awards	(1,230)	(942)
Partner contributions to consolidated real estate venture	23	15
Partner distributions from consolidated real estate venture	-	(54)
Repurchase and retirement of common shares	(17,282)	-
Distributions paid to shareholders	(33,084)	(32,173)
Distributions to noncontrolling interest	(187)	(266)
Net cash provided by (used in) financing activities	15,169	(34,321)
Decrease in cash and cash equivalents and restricted cash	(8,408)	(1,794)
Cash and cash equivalents and restricted cash at beginning of year	23,211	203,442
Cash and cash equivalents and restricted cash at end of period	$14,803	$201,648
Reconciliation of cash and cash equivalents and restricted cash:		
Cash and cash equivalents, beginning of period	$22,842	$202,179
Restricted cash, beginning of period	369	1,263
Cash and cash equivalents and restricted cash, beginning of period	$23,211	$203,442
Cash and cash equivalents, end of period	$14,449	$200,813
Restricted cash, end of period	354	835
Cash and cash equivalents and restricted cash, end of period	$14,803	$201,648
Supplemental disclosure:		
Cash paid for interest, net of capitalized interest during the three months ended March 31, 2019 and 2018 of $728 and $687, respectively	$14,251	$12,705
Cash paid for income taxes	-	7
Supplemental disclosure of non-cash activity:		
Dividends and distributions declared but not paid	34,107	32,502
Change in investment in real estate ventures as a result of dispositions	-	(17,313)

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Change in operating real estate related to a non-cash acquisition of an operating property	-	(20,653)
Change in intangible assets, net related to non-cash acquisition of an operating property	-	(3,144)
Change in acquired lease intangibles, net related to non-cash acquisition of an operating property	-	182
Change in investments in joint venture related to non-cash acquisition of property	-	(2,042)
Change in mortgage notes payable related to acquisition of an operating property	-	9,940
Change in capital expenditures financed through accounts payable at period end	(1,080)	(1,112)
Change in capital expenditures financed through retention payable at period end	(4,503)	(792)

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

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BRANDYWINE OPERATING PARTNERSHIP, L.P.

CONSOLIDATED BALANCE SHEETS

(in thousands, except unit and per unit information)

	March 31, 2019 (unaudited)	December 31, 2018
ASSETS		
Real estate investments:		
Operating properties	$4,015,879	$ 3,953,319
Right of use asset - operating leases	22,175	-
Accumulated depreciation	(891,125)	(865,462)
Operating real estate investments, net	3,146,929	3,087,857
Construction-in-progress	112,176	150,263
Land held for development	88,047	86,401
Prepaid leasehold interests in land held for development, net	39,897	39,999
Total real estate investments, net	3,387,049	3,364,520
Assets held for sale, net	7,345	11,599
Cash and cash equivalents	14,449	22,842
Accounts receivable, net of allowance of $284 and $1,653 as of March 31, 2019 and December 31, 2018, respectively	21,780	16,394
Accrued rent receivable, net of allowance of $11,018 and $11,266 as of March 31, 2019 and December 31, 2018, respectively	168,781	165,243
Investment in Real Estate Ventures, equity method	161,568	169,100
Deferred costs, net	95,293	91,075
Intangible assets, net	119,903	131,348
Other assets	139,761	126,400
Total assets	$4,115,929	$ 4,098,521
LIABILITIES AND PARTNERS' EQUITY		
Mortgage notes payable, net	$319,132	$ 320,869
Unsecured credit facility	160,500	92,500
Unsecured term loan, net	248,168	248,042
Unsecured senior notes, net	1,366,997	1,366,635
Accounts payable and accrued expenses	112,375	125,696
Distributions payable	34,107	33,632
Deferred income, gains and rent	24,749	28,293
Acquired lease intangibles, net	29,813	31,783
Lease liability - operating leases	22,402	-
Other liabilities	16,194	18,498
Total liabilities	$2,334,437	$ 2,265,948
Commitments and contingencies (See Note 14)		
Redeemable limited partnership units at redemption value; 982,871 issued and outstanding as of March 31, 2019 and December 31, 2018	15,421	12,520
Brandywine Operating Partnership, L.P.'s equity:		
	1,761,580	1,813,136

General Partnership Capital; 176,001,580 and 176,873,324 units issued and outstanding as of March 31, 2019 and December 31, 2018, respectively		
Accumulated other comprehensive income	2,242	4,725
Total Brandywine Operating Partnership, L.P.'s equity	1,763,822	1,817,861
Noncontrolling interest - consolidated real estate ventures	2,249	2,192
Total partners' equity	$1,766,071	$ 1,820,053
Total liabilities and partners' equity	$4,115,929	$ 4,098,521

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

BRANDYWINE OPERATING PARTNERSHIP, L.P.

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three-month periods ended March 31,	
	2019	2018
Revenue		
Rents	$138,098	$126,759
Third party management fees, labor reimbursement and leasing	3,955	7,674
Other	1,843	1,925
Total revenue	143,896	136,358
Operating expenses		
Property operating expenses	39,481	39,332
Real estate taxes	15,783	12,422
Third party management expenses	2,117	4,750
Depreciation and amortization	51,980	43,291
General and administrative expenses	9,844	8,723
Total operating expenses	119,205	108,518
Gain on sale of real estate		
Net gain on sale of undepreciated real estate	1,001	22
Total gain on sale of real estate	1,001	22
Operating income	25,692	27,862
Other income (expense):		
Interest income	525	703
Interest expense	(20,357)	(19,533)
Interest expense - amortization of deferred financing costs	(666)	(627)
Equity in loss of Real Estate Ventures	(1,358)	(825)
Net gain on real estate venture transactions	259	37,263
Net income before income taxes	4,095	44,843
Income tax provision	(29)	(138)
Net income	4,066	44,705
Net income attributable to noncontrolling interests - consolidated real estate ventures	(34)	(5)
Net income attributable to Brandywine Operating Partnership	4,032	44,700
Nonforfeitable dividends allocated to unvested restricted unitholders	(119)	(114)
Net income attributable to Common Partnership Unitholders of Brandywine Operating Partnership, L.P.	$3,913	$44,586
Basic income per Common Partnership Unit	$0.02	$0.25
Diluted income per Common Partnership Unit	$0.02	$0.25
Basic weighted average common partnership units outstanding	176,840,229	179,875,324
Diluted weighted average common partnership units outstanding	177,447,089	181,268,110

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

BRANDYWINE OPERATING PARTNERSHIP, L.P.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, in thousands)

	Three-month periods ended March 31,	
	2019	2018
Net income	$4,066	$44,705
Comprehensive income (loss):		
Unrealized gain (loss) on derivative financial instruments	(2,689)	4,696
Amortization of interest rate contracts (1)	206	312
Comprehensive income (loss):	(2,483)	5,008
Comprehensive income	1,583	49,713
Comprehensive income attributable to noncontrolling interest - consolidated real estate ventures	(34)	(5)
Comprehensive income attributable to Brandywine Realty Trust	$1,549	$49,708

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

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

BRANDYWINE OPERATING PARTNERSHIP, L.P.

CONSOLIDATED STATEMENTS OF PARTNERS' EQUITY

For the three-month period ended March 31, 2019

(unaudited, in thousands, except number of units)

	General Partner Capital				
	Units	Amount	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest - Consolidated Real Estate Ventures	Total Partners' Equity
BALANCE, December 31, 2018	176,873,324	$1,813,136	$ 4,725	$ 2,192	$1,820,053
Cumulative effect of accounting change		(5,336)			(5,336)
Net income		4,032		34	4,066
Other comprehensive income			(2,483)		(2,483)
Deferred compensation obligation	(458)				-
Repurchase and retirement of LP units	(1,337,169)	(17,281)			(17,281)
Issuance of partnership interest in consolidated real estate ventures				23	23
Share-based compensation activity	465,883	3,677			3,677
Adjustment of redeemable partnership units to liquidation value at period end		(3,088)			(3,088)
Distributions declared to general partnership unitholders (0.19 per unit)		(33,560)			(33,560)
BALANCE, March 31, 2019	176,001,580	$1,761,580	$ 2,242	$ 2,249	$1,766,071

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

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BRANDYWINE OPERATING PARTNERSHIP, L.P.

CONSOLIDATED STATEMENT OF PARTNERS' EQUITY

For the three-month period ended March 31, 2018

(unaudited, in thousands, except number of units)

	General Partner Capital Units	General Partner Capital Amount	Accumulated Other Comprehensive Income	Noncontrolling Interest - Consolidated Real Estate Ventures	Total Partners' Equity
BALANCE, December 31, 2017	178,285,236	$ 1,815,411	$ 2,056	$ 2,215	$ 1,819,682
Net income		44,700		5	44,705
Other comprehensive income			5,008		5,008
Deferred compensation obligation	66,830				-
Issuance of LP Units	23,311	416			416
Issuance of partnership interest in consolidated real estate ventures				15	15
Distributions from consolidated real estate ventures				(54)	(54)
Share Choice Plan issuance	(1,285)				-
Share-based compensation activity	68,425	3,075			3,075
Adjustment of redeemable partnership units to liquidation value at period end		3,604			3,604
Distributions declared to general partnership unitholders (0.18 per unit)		(32,259)			$ (32,259)
BALANCE, March 31, 2018	178,442,517	$ 1,834,947	$ 7,064	$ 2,181	$ 1,844,192

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

BRANDYWINE OPERATING PARTNERSHIP L.P.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

	Three-month periods ended March 31, 2019	2018
Cash flows from operating activities:		
Net income	$4,066	$44,705
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	51,980	43,291
Amortization of deferred financing costs	666	627
Amortization of debt discount/(premium), net	175	176
Amortization of stock compensation costs	3,449	3,265
Straight-line rent income	(4,165)	(4,978)
Amortization of acquired above (below) market leases, net	(1,805)	(793)
Straight-line ground rent expense	351	22
Provision for doubtful accounts	-	467
Net gain on real estate venture transactions	-	(37,263)
Net gain on sale of interests in real estate	(1,001)	(22)
Income from Real Estate Ventures, net of distributions	1,159	2,209
Income tax provision	29	138
Changes in assets and liabilities:		
Accounts receivable	(3,539)	(646)
Other assets	(39,088)	(12,911)
Accounts payable and accrued expenses	(10,822)	(1,146)
Deferred income, gains and rent	(3,148)	2,295
Other liabilities	19,459	(738)
Net cash provided by operating activities	17,766	38,698
Cash flows from investing activities:		
Acquisition of properties	-	(24,946)
Proceeds from the sale of properties	5,273	14,921
Proceeds from real estate venture sales	259	42,953
Proceeds from repayment of mortgage notes receivable	15	562
Capital expenditures for tenant improvements	(14,978)	(16,569)
Capital expenditures for redevelopments	(10,777)	(2,429)
Capital expenditures for developments	(18,645)	(19,387)
Advances for the purchase of tenant assets, net of repayments	(1,615)	316
Investment in unconsolidated Real Estate Ventures	(182)	(261)
Deposits for real estate	3,152	(162)
Capital distributions from Real Estate Ventures	1,851	1,951
Leasing costs paid	(5,696)	(3,120)
Net cash used in investing activities	(41,343)	(6,171)
Cash flows from financing activities:		
Repayments of mortgage notes payable	(1,871)	(1,317)
Proceeds from credit facility borrowings	198,000	-

Repayments of credit facility borrowings	(130,000)	-
Proceeds from the exercise of stock options	800	-
Proceeds from the issuance of common shares	-	416
Shares used for employee taxes upon vesting of share awards	(1,230)	(942)
Partner contributions to consolidated real estate venture	23	15
Partner distributions from consolidated real estate venture	-	(54)
Repurchase and retirement of common shares	(17,282)	-
Distributions paid to preferred and common partnership units	(33,271)	(32,439)
Net cash provided by (used in) financing activities	15,169	(34,321)
Decrease in cash and cash equivalents and restricted cash	(8,408)	(1,794)
Cash and cash equivalents and restricted cash at beginning of year	23,211	203,442
Cash and cash equivalents and restricted cash at end of period	$14,803	$201,648
Reconciliation of cash and cash equivalents and restricted cash:		
Cash and cash equivalents, beginning of period	$22,842	$202,179
Restricted cash, beginning of period	369	1,263
Cash and cash equivalents and restricted cash, beginning of period	$23,211	$203,442
Cash and cash equivalents, end of period	$14,449	$200,813
Restricted cash, end of period	354	835
Cash and cash equivalents and restricted cash, end of period	$14,803	$201,648
Supplemental disclosure:		
Cash paid for interest, net of capitalized interest during the three months ended March 31, 2019 and 2018 of $728 and $687, respectively	$14,251	$12,705
Cash paid for income taxes	-	7
Supplemental disclosure of non-cash activity:		
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Change in mortgage notes payable related to acquisition of an operating property	-	9,940
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Change in capital expenditures financed through retention payable at period end	(4,503)	(792)

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

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

1. ORGANIZATION OF THE PARENT COMPANY AND THE OPERATING PARTNERSHIP

The Parent Company is a self-administered and self-managed real estate investment trust ("REIT") that provides leasing, property management, development, redevelopment, acquisition and other tenant-related services for a portfolio of office, retail and mixed-use properties. The Parent Company owns its assets and conducts its operations through the Operating Partnership and subsidiaries of the Operating Partnership. The Parent Company is the sole general partner of the Operating Partnership and, as of March 31, 2019, owned a 99.4% interest in the Operating Partnership. The Parent Company's common shares of beneficial interest are publicly traded on the New York Stock Exchange under the ticker symbol "BDN".

As of March 31, 2019, the Company owned 96 properties that contained an aggregate of approximately 16.9 million net rentable square feet (collectively, the "Properties"). The Company's core portfolio of operating properties, as of March 31, 2019, 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 March 31, 2019:

	Number of Properties	Rentable Square Feet
Office properties	88	15,719,636
Mixed-use properties	3	641,741
Retail property	1	17,884
Core Properties	92	16,379,261
Development property	1	204,108
Redevelopment properties	3	338,650
The Properties	96	16,922,019

In addition to the Properties, as of March 31, 2019, the Company owned land held for development, comprised of 234.7 acres of undeveloped land, of which 35.2 acres were held for sale and 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 March 31, 2019, the total potential development that these land parcels could support under current zoning and entitlements, including the parcels under option, amounted to an estimated 14.2 million square feet, of which 0.2 million square feet relates to 35.2 acres held for sale. As of March 31, 2019, the Company also owned economic interests in ten unconsolidated real estate ventures (collectively, the "Real Estate Ventures") (see Note 4, *"Investment in Unconsolidated Real Estate Ventures,"* for further information). 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.

The Company conducts its third-party real estate management services business primarily through wholly-owned management company subsidiaries. As of March 31, 2019, the management company subsidiaries were managing properties containing an aggregate of approximately 24.9 million net rentable square feet, of which approximately 16.9 million net rentable square feet related to Properties owned by the Company and approximately 8.0 million net rentable square feet related to properties owned by third parties and Real Estate Ventures.

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

2. BASIS OF PRESENTATION

Basis of Presentation

The consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) for interim financial statements. Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments consist solely of normal recurring matters, and result in a fair statement of the financial position of the Company as of March 31, 2019, the results of its operations for the three-month periods ended March 31, 2019 and 2018 and its cash flows for the three-month periods ended March 31, 2019 and 2018 have been included. The results of operations for such interim periods are not necessarily indicative of the results for a full year. These consolidated financial statements should be read in conjunction with the Parent Company’s and the Operating Partnership’s consolidated financial statements and footnotes included in their combined 2018 Annual Report on Form 10-K filed with the SEC on February 22, 2019.

The Company's Annual Report on Form 10-K for the year ended December 31, 2018 contains a discussion of our significant accounting policies under Note 2, *"Summary of Significant Accounting Policies".* Other than the adoption of ASU-2016-02, Leases (Topic 842), there have been no significant changes in our significant accounting policies since December 31, 2018. Management discusses our significant accounting policies and management's judgments and estimates with the Company's Audit Committee.

Out of Period Adjustment

The Company recorded $0.8 million of depreciation expense during the three-month period ended March 31, 2019, which should have been recorded in the consolidated financial statements for the three and twelve-month periods ended December 31, 2018. Management concluded that this misstatement was not material to the consolidated financial statements as of and for the twelve-month period ended December 31, 2018 or the three-month period ended March 31, 2019.

Reclassifications

The Company reclassified tenant reimbursements and termination fees within the "Rents" caption on the consolidated statements of operations as a result of the adoption of Topic 842, Leases as of January 1, 2019. Tenant reimbursements and termination fees, which were reclassified retrospectively for all periods, were formerly presented separately in the "Tenant reimbursements" and "Termination fees" captions, respectively, on the consolidated statements of operations. The prior year reclassifications were made to conform to current-year presentation under Topic 842 and did not result in any change in total revenue.

Adoptions of New Accounting Guidance

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), modifying the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification determines whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and lease liability for all leases with a term of greater than twelve months regardless of their classification. Leases with a term of twelve months or less will be accounted for in the same manner as operating leases under ASC 840, Leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to previous guidance for sales-type leases, direct financing leases, and operating leases. The guidance supersedes previously issued guidance under ASC 840.

The Company adopted Topic 842 effective January 1, 2019. In applying the modified retrospective transition method, the Company elected the package of practical expedients available for implementation, which allows for the following:

- An entity need not reassess whether any expired or existing contracts are or contain leases;
- An entity need not reassess the lease classification for any expired or existing leases; and
- An entity need not reassess initial indirect costs for any existing leases.

Furthermore, the Company elected the optional transition method to make January 1, 2019 the initial application date of the standard. This package of practical expedients allows entities to account for their existing leases for the remainder of their respective lease terms following the previous accounting guidance.

The Company also elected to adopt the optional transition practical expedient provided in ASU 2018-01 to not evaluate under Topic 842 for existing or expired land easements prior to the application date to determine if they meet the definition of a lease.

The Company also elected to adopt the practical expedient offered in ASU 2018-11 that allows lessors to not allocate the total consideration to lease and nonlease components, such as tenant reimbursements, based on their relative standalone selling prices as the timing and pattern of revenue recognition of the combined single lease component is the same and the leases are classified as operating leases.

The Company elected to adopt ASU 2018-20, which allows lessors to not evaluate whether certain sal

Lessor accounting

The Company generates revenue under leases with tenants occupying the Properties. Generally, leases with tenants are accounted for as operating leases. As of March 31, 2019, the Company does not have any leases classified as direct-financing or sales-type leases. The operating leases have various expiration dates.

Lease payments on non-cancellable leases at March 31, 2019 are as follows (in thousands):

Year	Lease payments
2019 (nine months remaining)	$292,215
2020	377,088
2021	354,913
2022	309,125
2023	281,437
Thereafter	1,270,928
Total	$2,885,706

Lease payments on non-cancellable leases at December 31, 2018 are as follows (in thousands):

Year	Lease payments
2019	$392,058
2020	372,619
2021	349,160
2022	304,445
2023	277,388
Thereafter	1,265,810
Total	$2,961,480

Fixed lease payments under tenant leases are recognized on a straight-line basis over the term of the related lease. The cumulative difference between lease revenue recognized under the straight-line method and contractual lease payments are recorded as “Accrued rent receivable” on the consolidated balance sheets. Variable lease payments are recognized as lease revenue in the period in which changes in facts and circumstances on which the variable lease payments are based occur.

In November 2018, the FASB issued ASU No. 2018-19, which clarifies that operating lease receivables are not within the scope of ASC 326-20 and should instead be accounted for under the new leasing standard, ASC 842. Topic 842 requires a binary approach to evaluating leases for collectability. Lessors are required to determine if it is probable that substantially all of the lease payments will be collected from the tenant over the lease term. Should the lessor determine that it is not probable that substantially all of the lease payments will be collected, the standard requires that the lessor writes off any accrued rent receivable and begin recognizing lease payments on a cash-basis. The Company has evaluated all leases for collectability and is recognizing lease payments for certain leases on a cash-basis as collectability of substantially all of the lease payments is not probable. As a result, during the quarter ended March 31, 2019, the write off of the accrued rent receivable of $0.7 million was recorded by the Company upon adoption of Topic 842 as a cumulative effect of accounting change adjustment to equity through the “Cumulative earnings” caption on the consolidated balance sheets. The Company maintains a general reserve of $11.3 million relating to leases that existed prior to adoption of Topic 842 for which the Company has determined that collectability of substantially all of lease payments remains probable as of March 31, 2019.

The Company’s lease revenue is impacted by the Company’s determination of whether improvements to the property, whether made by the Company or by the tenant, are landlord assets. The determination of whether an improvement is a landlord asset requires judgment. In making this judgment, the Company’s primary consideration is whether an improvement would be utilizable by another tenant upon move out of the improved space by the then-existing tenant. If the Company has funded an improvement that it determines not to be landlord assets, then it treats the cost of the improvement as a lease incentive. If the tenant has funded the improvement that the Company determines to be landlord assets, then the Company treats the costs of the improvement as deferred revenue and amortizes this costs into revenue over the lease term.

For certain leases, the Company also makes significant assumptions and judgments in determining the lease term, including assumptions when the lease provides the tenant with an early termination option or purchase option. The lease term impacts the period over which the Company determines and records lease payments and also impacts the period of which it amortizes lease-related costs. The Company considers all relevant factors that create an economic incentive for the lessee and uses judgement to determine if those factors, considered together, signify that the lessee is reasonably certain to exercise the option. For leases where a tenant executes a lease termination, termination fees are recognized over the modified term of the lease as rental income. Additionally, any deferred rents receivable are accelerated over the modified lease term.

The Company's leases also typically provide for tenant reimbursement of a portion of common area maintenance expenses and other operating expenses to the extent that a tenant's pro rata share of expenses exceeds a base year level set in the lease or to the extent that the tenant has a lease on a triple net basis. The Company also contracts with third-party vendors and suppliers for goods and services to fulfill certain of the Company's obligations to tenants. Tenant reimbursements are billed in the period in which the related expenses are incurred.

The table below sets forth the allocation of lease revenue recognized between fixed contractual payments and variable lease payments (in thousands):

Lease Revenue	Three Months Ended March 31, 2019
Fixed lease payments	$ 108,033
Variable lease payments	30,064
Total	$ 138,097

Fixed lease payments include contractual rents under lease agreements with tenants recognized on a straight-line basis over the lease term, including amortization of lease incentives and above or below market rent intangibles, and parking income that is fixed under a long-term contract. Variable lease payments include reimbursements billed to tenants, termination fees, bad debt expense, and parking income that is not fixed under a long-term contract.

Lessee Accounting

The Company is the lessee under six long-term ground leases classified as operating leases. While adoption of the practical expedient allows the Company to not revisit the classification of existing leases, the Company measured the present value of the future lease payments for each ground lease agreement and recognized a right of use asset and lease liability in the aggregate amount of $22.4 million, each as of January 1, 2019 in accordance with Topic 842. The right of use assets and lease liabilities are presented in the "Right of use asset – operating leases" and "Lease liability – operating leases" captions, respectively, on the consolidated balance sheets as of March 31, 2019.

The Company makes significant assumptions and judgements when determining the discount rate for the lease to calculate the present value of the lease payments. As the rate implicit in the lease is not readily determinable, the Company estimates the incremental borrowing rate ("IBR") that it would need to pay to borrow on a collateralized basis over a similar lease term an amount equal to the lease payments in a similar economic environment. The Company utilized a market-based approach to estimate the IBR for each individual lease. The base IBR was estimated utilizing observable mortgage and corporate bond rates, which were then adjusted to account for considerations related to the Company's credit rating and the lease term to select an incremental borrowing rate for each lease.

The lease liabilities and right of use assets are amortized on a straight-line basis over the lease term with the corresponding expense classified in the “Property operating expenses” caption on the consolidated statement of operations. Certain of the Company’s ground leases contain extension options. The Company has exercised judgment in considering all economic factors to determine that it is not reasonably certain to exercise the extension options and therefore has not included the extension period in the remaining lease term. With the exception of certain ground leases that are subject to rent increases periodically based on the CPI index, all lease payments under the ground lease are fixed. Topic 842 requires use of the most recent CPI adjustment when determining the present value of the lease payments for an indexed lease. As such, the 2018 CPI index was used to determine the right of use asset and corresponding lease liability as of January 1, 2019. Additional rent payments for amounts in excess of this estimated growth rate will be expensed on a cash basis as incurred and are considered variable lease costs.

The table below summarizes the Company's operating lease cost (in thousands) recognized through the "Property operating expenses" caption on the consolidated statement of operations:

Lease Cost	Three Months Ended March 31, 2019
Fixed lease cost	$ 525
Variable lease cost	14
Total	$ 539
Weighted-average remaining lease term (years)	53.2
Weighted-average discount rate	6.3 %

Marine Piers Sublease Interest Sale

On March 15, 2017, the Company sold its sublease interest in the Piers at Penn's Landing (the "Marine Piers"), which includes leasehold improvements containing 181,900 net rentable square feet, and a marina, located in Philadelphia, Pennsylvania, for an aggregate sales price of $21.4 million. On the closing date, the buyer paid $12.0 million in cash and the Company received cash proceeds of $11.2 million, after closing costs and prorations. The $9.4 million balance of the purchase is due on (a) January 31, 2020, in the event that the tenant at the Marine Piers does not exercise an option it holds to extend the term of the sublease or (b) January 15, 2024, in the event that the tenant does exercise the option to extend the term of the sublease. In accordance with ASU 2017-05, the Company determined that it is appropriate to recognize the sale of the sublease interest in the Marine Piers and to defer the amount of the pending payment due from the buyer because the Company cannot determine the collectability of the remaining $9.4 million balance due under the purchase and sale agreement. The net book value of the Marine Piers was $4.7 million, resulting in a gain on sale of $6.5 million. The remaining gain on sale of $9.4 million arising from the pending payment will be recognized at the earlier of: (i) the time that the Company determines collection of the deferred payment is probable or (ii) on the second purchase price installment date. Based on the facts and circumstances, revenue recognition under ASU 2017-05 coincides with the Company's previous conclusion under ASC 360-20, and therefore no restatement of the consolidated financial statements is necessary as a result of implementing the guidance for the sale of nonfinancial assets. During the first quarter of 2019, the tenant at the Marine Piers exercised its option to extend the term of its sublease. Therefore, the Company expects to receive the $9.4 million balance on January 15, 2024.

Recent Accounting Pronouncements

In March 2019, the FASB issued ASU No. 2019-01, an amendment to the lease ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing essential information about leasing transactions. The amendments in this update reinstate the exception in Topic 842 for lessors that are not manufacturers or dealers. The amendment is effective with Topic 842. Specifically, those lessors will use their cost, reflecting any volume or trade discounts that may apply, as the fair value of the underlying asset. However, if significant time lapses between the acquisition of the underlying asset and lease commencement, those lessors will be required to apply the definition of fair value (exit price) in Topic 820. The Company has evaluated the impact of this new guidance and determined that it will not have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13 that changes how entities measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The guidance replaces the current incurred loss model with an expected loss approach, resulting in more timely recognition of such losses. The guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted after December 2018. The Company is in the process of evaluating the impact of this new guidance on reserves for notes receivable. The Company has not quantified the impact that this guidance will have on its consolidated financial statements.

3. REAL ESTATE INVESTMENTS

As of March 31, 2019 and December 31, 2018, the gross carrying value of the operating properties was as follows (in thousands):

	March 31, 2019	December 31, 2018
Land	$509,503	$ 508,363
Building and improvements	3,068,255	3,029,427
Tenant improvements	438,121	415,529
Total	$4,015,879	$ 3,953,319

Dispositions

The Company sold the following land parcel and recognized a gain on a property sold in a prior year during the three-month period ended March 31, 2019 (dollars in thousands):

Disposition Date	Property/Portfolio Name	Location	Number of Parcels	Acres	Sales Price	Net Proceeds on Sale	Gain on Sale	
March 15, 2019	9 Presidential Boulevard	Bala Cynwyd, PA	1	2.7	$5,325	$ 5,023	$751	
January 8, 2015	Libertyview	Cherry Hill, NJ	-	-	-	250	250	(a)
Total Dispositions			1	2.7	$5,325	$ 5,273	$1,001	

(a) As of January 2019, the Company will receive an additional $1.0 million of contingent consideration. The Company will recognize this consideration on a cash basis due to uncertainty of collectability. The $1.0 million consideration is payable to the Company in twelve equal installments, of which $0.3 million has been received during the three-month period ended March 31, 2019.

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

Held for Sale

As of March 31, 2019, the Company determined that the sale of two parcels of land totaling 35.2 acres in the Other segment was probable and classified these properties as held for sale in accordance with applicable accounting standards for long-lived assets. As of March 31, 2019, $7.3 million was reclassified from the "Land held for development" caption to the "Assets held for sale, net" caption on the consolidated balance sheets. There were no other reclassifications related to these parcels of land. As of March 31, 2019, the fair value less the anticipated costs of sale of the properties exceeded the carrying values. As a result, the Company expects to record gains on sale. The fair value measurement is based on the pricing in the purchase and sale agreements.

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

4. INVESTMENT IN UNCONSOLIDATED REAL ESTATE VENTURES

As of March 31, 2019, the Company held ownership interests in ten unconsolidated Real Estate Ventures for an aggregate investment balance of $161.6 million. The Company formed or acquired interests in these Real Estate Ventures with unaffiliated third parties to develop or manage office, residential and/or mixed-use properties or to acquire land in anticipation of possible development of office, residential and/or mixed-use properties. As of March 31, 2019, six 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.

The Company accounts for its unconsolidated interests in the Real Estate Ventures using the equity method. The Company’s unconsolidated interests range from 15% to 70%, subject to specified priority allocations of distributable cash in certain of the Real Estate Ventures.

The Company earned management fees from its Real Estate Ventures of $1.1 million and $1.3 million for the three-month periods ended March 31, 2019 and March 31, 2018, respectively.

The Company earned leasing commission income from its Real Estate Ventures of $0.2 million and $0.8 million for the three-month periods ended March 31, 2019, and March 31, 2018, respectively.

The Company had outstanding accounts receivable balances from its Real Estate Ventures of $0.8 million as of both March 31, 2019 and December 31, 2018.

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

The following is a summary of the financial position of the Real Estate Ventures in which the Company held interests as of March 31, 2019 and December 31, 2018 (in thousands):

	March 31, 2019	December 31, 2018
Net property	$835,827	$ 835,983
Other assets (a)	365,840	159,499
Other liabilities (a)	287,138	85,681
Debt, net (b)	490,840	365,707
Equity (c)	423,689	544,094

(a) The increase in ‘Other assets’ and ‘Other liabilities’ for the period ended March 31, 2019 compared to the period ended December 31, 2018 is due to the recording of the right of use asset and lease liability of $197.1 million and $249.3 million, respectively, for the MAP Venture ground lease upon adoption of Topic 842, which was adopted by the venture on January 1, 2019.

(b) This amount increased as a result of third-party debt financing received by Herndon Innovation Center Venture, an unconsolidated real estate venture on March 29, 2019. See “Herndon Innovation Center Metro Portfolio Venture” section below for further information.

(c) This amount includes the effect of the basis difference between the Company's historical cost basis and the basis recorded at the Real Estate Venture level, which is typically amortized over the life of the related assets and liabilities. Basis differentials occur from the impairment of investments, purchases of third party interests in existing Real Estate Ventures and upon the transfer of assets that were previously owned by the Company into a Real Estate Venture. In addition, certain acquisition, transaction and other costs may not be reflected in the net assets at the Real Estate Venture level.

The following is a summary of results of operations of the Real Estate Ventures in which the Company held interests during the three--month periods ended March 31, 2019 and 2018, respectively (in thousands):

	Three-month period ended March 31, 2019			
	evo at Cira Centre South (a)	MAP Venture	Other	Total
Revenue	$-	$18,288	$16,771	$35,059
Operating expenses	-	(12,155)	(6,563)	(18,718)
Interest expense, net	-	(2,536)	(1,384)	(3,920)
Depreciation and amortization	-	(6,349)	(7,363)	(13,712)
Net income (loss)	$-	$(2,752)	$1,461	$(1,291)
Ownership interest %	50%	50%	(b)	(b)
Company's share of net income (loss)	$-	$(1,376)	$64	$(1,312)
Basis adjustments and other	-	(56)	10	(46)
Equity in income (loss) of Real Estate Ventures	$-	$(1,432)	$74	$(1,358)

Three-month period ended March 31, 2018			
evo at Cira Centre South	MAP Venture	Other	Total

	(a)			
Revenue	$995	$17,080	$24,746	$42,821
Operating expenses	(250)	(10,307)	(10,211)	(20,768)
Interest expense, net	(388)	(3,791)	(3,947)	(8,126)
Depreciation and amortization	(376)	(4,701)	(9,307)	(14,384)
Loss on early extinguishment of debt	(718)	-	-	(718)
Net income (loss)	$(737)	$(1,719)	$1,281	$(1,175)
Ownership interest %	50 %	50 %	(b)	(b)
Company's share of net income (loss)	$(369)	$(860)	$523	$(706)
Basis adjustments and other	11	7	(137)	(119)
Equity in income (loss) of Real Estate Ventures	$(358)	$(853)	$386	$(825)

(a) The Company sold its 50% ownership interest in evo at Cira Centre South Venture during the first quarter of 2018.
(b) The Company’s unconsolidated ownership interests ranged from 15% to 70% during the three-month periods ended March 31, 2019 and 25% to 70% during the three-month periods ended March 31, 2018, subject to specified priority allocations of distributable cash in certain of the Real Estate Ventures.

MAP Venture

MAP Ground Lease Venture LLC (the "MAP Venture"), an unconsolidated real estate venture in which the Company holds a 50% ownership interest, is the lessee under a 99-year ground lease of land parcels underlying 58 office properties owned by the MAP Venture. Upon adoption of Topic 842, Leases on January 1, 2019, the MAP Venture determined that the carrying amount of the right of use asset was greater than the fair value of the underlying right of use asset. The fair value of the underlying right of use asset was determined using the purchase price paid by a third-party to acquire the ground lease. As a result, the venture recorded a $9.2 million cumulative effect of accounting change adjustment simultaneously with the recording of the right of use asset to reduce the value of the right of use asset to its estimated fair value. The Company recorded its $4.6 million proportionate share of the cumulative effect of accounting change adjustment through the "Cumulative earnings" caption on its consolidated balance sheets.

Herndon Innovation Center Metro Portfolio Venture, LLC

On March 29, 2019, Herndon Innovation Center Metro Portfolio Venture, LLC ("Herndon Innovation Center Venture"), in which the Company holds a 15% ownership interest, obtained $134.1 million of third-party debt financing, secured by four properties within the venture, with an initial advance of $113.1 million. On April 1, 2019, the venture received $111.0 million in net cash proceeds from the financing, of which $16.7 million was distributed to the Company for its share in the venture. The loan bears interest at LIBOR + 1.95% capped at a total maximum interest rate of 5.45% - 6.45% over the term of the loan and matures on March 29, 2024.

Guarantees

As of March 31, 2019, the Real Estate Ventures had aggregate indebtedness of $498.2 million. These loans are generally mortgage or construction loans, most of which are nonrecourse to the Company, except for customary carve-outs. As of March 31, 2019, the loans to Real Estate Ventures for which there is recourse to the Company consist of the following: (i) a $0.3 million payment guarantee on a loan with a $3.7 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, the Company has provided and expects to continue to provide cost overrun and completion guarantees, with rights of contribution among partners or members in the Real Estate Ventures, as well as customary environmental indemnities and guarantees of customary exceptions to nonrecourse provisions in loan agreements.

5. INTANGIBLE ASSETS AND LIABILITIES

As of March 31, 2019 and December 31, 2018, the Company's intangible assets/liabilities were comprised of the following (in thousands):

	March 31, 2019		
	Total Cost	Accumulated Amortization	Intangible Assets, net
Intangible assets, net:			
In-place lease value	$179,979	$ (62,584)	$117,395

Tenant relationship value	9,564	(8,715)	849
Above market leases acquired	4,966	(3,307)	1,659
Total intangible assets, net	$194,509	$ (74,606)	$119,903
Acquired lease intangibles, net:			
Below market leases acquired	$49,228	$ (19,415)	$29,813

	December 31, 2018		
	Total Cost	Accumulated Amortization	Intangible Assets, net
Intangible assets, net:			
In-place lease value	$181,887	$ (53,376)	$128,511
Tenant relationship value	9,564	(8,551)	1,013
Above market leases acquired	4,966	(3,142)	1,824
Total intangible assets, net	$196,417	$ (65,069)	$131,348
Acquired lease intangibles, net:			
Below market leases acquired	$49,655	$ (17,872)	$31,783

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As of March 31, 2019, the Company's annual amortization for its intangible assets/liabilities, assuming no prospective early lease terminations, was as follows (dollars in thousands):

	Assets	Liabilities
2019 (nine months remaining)	$30,532	$ 5,433
2020	28,393	5,707
2021	20,128	4,302
2022	12,791	2,654
2023	9,756	2,094
Thereafter	18,303	9,623
Total	$119,903	$ 29,813

6. DEBT OBLIGATIONS

The following table sets forth information regarding the Company's consolidated debt obligations outstanding at March 31, 2019 and December 31, 2018 (in thousands):

	March 31, 2019	December 31, 2018	Effective Interest Rate	Maturity Date
MORTGAGE DEBT:				
Two Logan Square	$82,385	$ 82,805	3.98%	May 2020
Four Tower Bridge	9,469	9,526	4.50%	Feb 2021
One Commerce Square	119,292	120,183	3.64%	Apr 2023
Two Commerce Square	110,014	110,518	4.51%	Apr 2023
Principal balance outstanding	321,160	323,032		
Plus: fair market value premium (discount), net	(1,664)	(1,759)		
Less: deferred financing costs	(364)	(404)		
Mortgage indebtedness	$319,132	$ 320,869		
UNSECURED DEBT				
$600 million Unsecured Credit Facility	$160,500	$ 92,500	LIBOR + 1.10%	Jul 2022
Seven-Year Term Loan - Swapped to fixed	250,000	250,000	2.87%	Oct 2022
$350.0M 3.95% Guaranteed Notes due 2023	350,000	350,000	3.87%	Feb 2023

$250.0M 4.10% Guaranteed Notes due 2024	250,000	250,000	4.33%	Oct 2024
$450.0M 3.95% Guaranteed Notes due 2027	450,000	450,000	4.03%	Nov 2027
$250.0M 4.55% Guaranteed Notes due 2029	250,000	250,000	4.60%	Oct 2029
Indenture IA (Preferred Trust I)	27,062	27,062	LIBOR + 1.25%	Mar 2035
Indenture IB (Preferred Trust I) - Swapped to fixed	25,774	25,774	3.30%	Apr 2035
Indenture II (Preferred Trust II) - Swapped to fixed	25,774	25,774	3.09%	Jul 2035
Principal balance outstanding	1,789,110	1,721,110		
Plus: original issue premium (discount), net	(4,015)	(4,096)		
Less: deferred financing costs	(9,430)	(9,837)		
Total unsecured indebtedness	$1,775,665	$ 1,707,177		
Total Debt Obligations	$2,094,797	$ 2,028,046		

As of both March 31, 2019 and December 31, 2018, the Company's weighted-average effective interest rates on its mortgage notes payable were 4.05%, respectively.

In addition to the debt described above, the Company utilizes borrowings under its unsecured revolving credit facility (the "Credit Facility") for general business purposes, including to fund costs of acquisitions, developments and redevelopments of properties, fund share repurchases and to repay from time to time other debt. The Credit Facility provides for borrowings of up to $600.0 million and the per annum variable interest rate on borrowings is LIBOR plus 1.10%. The interest rate and facility fee are subject to adjustment upon a change in the Company's unsecured debt ratings. During the three months ended March 31, 2019, the weighted-average interest rate on Credit Facility borrowings was 2.50% resulting in $1.3 million of interest expense. As of March 31, 2019, the effective interest rate on

Credit Facility borrowings was 3.60%. The Company had no borrowings under the Credit Facility as of and during the three-months ended March 31, 2018.

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

The Company was in compliance with all financial covenants as of March 31, 2019. Management continuously monitors the Company's current and anticipated compliance with the covenants. Certain of the covenants restrict the Company's ability to obtain alternative sources of capital.

As of March 31, 2019, the Company's aggregate scheduled principal payments of debt obligations, excluding amortization of discounts and premiums, are as follows (in thousands):

2019 (nine months remaining)	$5,723
2020	87,226
2021	15,143
2022	416,832
2023	556,736
Thereafter	1,028,610
Total principal payments	2,110,270
Net unamortized premiums/(discounts)	(5,679)
Net deferred financing costs	(9,794)
Outstanding indebtedness	$2,094,797

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access;
- Level 2 inputs are inputs, other than quoted prices included in Level 1, which are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals; and
- Level 3 inputs are unobservable inputs for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity or information.

The Company determined the fair values disclosed below using available market information and discounted cash flow analyses as of March 31, 2019 and December 31, 2018, respectively. The discount rate used in calculating fair value is the sum of the current risk free rate and the risk premium on the date of measurement of the instruments or obligations. Considerable judgment is necessary to interpret market data and to develop the related estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amounts that the Company could realize upon disposition. The use of different estimates and valuation methodologies may have a material effect on the fair value amounts shown. The Company believes that the carrying amounts reflected in the consolidated balance sheets at March 31, 2019 and December 31, 2018 approximate the fair values for cash and cash equivalents, accounts receivable, other assets (except for the note receivable disclosed below), accounts payable and accrued expenses. The following are financial instruments for which the Company's estimates of fair value differ from the carrying amounts (in thousands):

	March 31, 2019		December 31, 2018	
	Carrying Amount (a)	Fair Value	Carrying Amount (a)	Fair Value
Unsecured notes payable	$1,288,387	$1,301,735	$1,288,024	$1,262,570
Variable rate debt	$487,278	$470,869	$419,153	$402,924
Mortgage notes payable	$319,132	$320,187	$320,869	$318,515
Notes receivable (b)	$47,753	$47,691	$47,771	$47,747

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(a) The carrying amounts presented in the table above are net of deferred financing costs of $7.6 million and $7.9 million for unsecured notes payable, $1.8 million and $5.1 million for variable rate debt and $0.4 million for mortgage notes payable as of both March 31, 2019 and December 31, 2018, respectively.
(b) The inputs to originate the notes receivable are unobservable and, as a result, are categorized as Level 3. The Company determined fair value by calculating the present value of the cash payments to be received through the maturity date of the loans.

On June 26, 2018, the Company provided a $44.4 million mortgage loan to Brandywine 1919 Ventures, an unconsolidated real estate venture in which the Company holds a 50% ownership interest, and recorded a note receivable of $44.4 million. Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2018 for further detail regarding this financing.

As of March 31, 2019, notes receivable also include a $3.4 million note receivable that was provided to a third party to acquire a property. The loan bears interest at 7.0% through March 2019 and at 8.0% thereafter until its maturity date in March of 2020. The principal balance of the loan amortizes down to a $3.1 million balloon payment, which the Company expects to receive at the maturity date of March of 2020.

The Company periodically assesses collectability of the notes receivable in accordance with the accounting standard for loan receivables. As of March 31, 2019, the Company's notes receivable are collectible.

The inputs utilized to determine the fair value of the Company's unsecured notes payable are categorized as Level 2. This is because the Company valued these instruments using quoted market prices as of March 31, 2019 and December 31, 2018. For the fair value of the Company's unsecured notes, the Company uses a discount rate based on the indicative new issue pricing provided by lenders.

The inputs utilized to determine the fair value of the Company's mortgage notes payable and variable rate debt are categorized as Level 3. The fair value of the variable rate debt was estimated using a discounted cash flow analysis valuation on the borrowing rates currently available to the Company for loans with similar terms and maturities, as applicable. The fair value of the mortgage debt was determined by discounting the future contractual interest and principal payments by a blended market rate for loans with similar terms, maturities and loan-to-value. These inputs have been categorized as Level 3 because the Company considers the rates used in the valuation techniques to be unobservable inputs.

The inputs to originate the notes receivable are unobservable and, as a result, are categorized as Level 3. The Company determined fair value by calculating the present value of the cash payments to be received through the maturity dates of the loans.

For the Company's mortgage loans, the Company uses an estimate based discounted cash flow analyses and its knowledge of the mortgage market. An increase in the discount rate used in the discounted cash flow model would result in a decrease to the fair value of the Company's long-term debt. Conversely, a decrease in the discount rate used in the discounted cash flow model would result in an increase to the fair value of the Company's long-term debt.

Disclosure about the fair value of financial instruments is based upon pertinent information available to management as of March 31, 2019 and December 31, 2018. Although management is not aware of any factors that would significantly affect the fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since March 31, 2019, and current estimates of fair value may differ from the amounts presented herein.

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

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

Operating Partnership

The aggregate book value of the non-controlling interests associated with the redeemable common limited partnership interests in the accompanying consolidated balance sheet of the Parent Company was $9.9 million and $10.1 million as of March 31, 2019 and December 31, 2018, respectively. Under the applicable accounting guidance, the redemption value of limited partnership units are carried at, on a limited partner basis, the greater of historical cost adjusted for the allocation of income and distributions or fair value. The Parent Company believes that the aggregate settlement value of these interests, based on the number of units outstanding and the closing price of the common shares on the balance sheet dates as of March 31, 2019 and December 31, 2018, was approximately $15.6 million and $12.6 million, respectively.

9. FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The following table summarizes the terms and fair values of the Company's derivative financial instruments as of March 31, 2019 and December 31, 2018. The notional amounts provide an indication of the extent of the Company's involvement in these instruments at that time, but do not represent exposure to credit, interest rate or market risks (amounts presented in thousands and included in other assets and other liabilities on the Company's consolidated balance sheets).

Hedge Product	Hedge Type	Designation		Notional Amount		Strike	Trade Date	Maturity Date	Fair value	
				3/31/2019	12/31/2018				3/31/2019	12/31/2018
Assets										
Swap	Interest Rate	Cash Flow	(a)	$250,000	$250,000	2.868%	October 8, 2015	October 8, 2022	$4,522	$ 7,008
Swap	Interest Rate	Cash Flow	(a)	25,774	25,774	3.300%	December 22, 2011	January 30, 2021	185	292
Swap	Interest Rate	Cash Flow	(a)	25,774	25,774	3.090%	January 6, 2012	October 30, 2019	151	183
				$301,548	$301,548					

(a) Hedging unsecured variable rate debt.

The Company measures its derivative instruments at fair value and records them in the "Other assets" and ("Other liabilities") captions on the Company's consolidated balance sheets.

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

Disclosure about the fair value of derivative instruments is based upon pertinent information available to management as of March 31, 2019 and December 31, 2018. Although management is not aware of any factors that would significantly affect the fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since March 31, 2019. Current estimates of fair value may differ from the amounts presented herein.

10. BENEFICIARIES' EQUITY OF THE PARENT COMPANY

Earnings per Share (EPS)

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

	Three-month periods ended March 31,			
	2019		2018	
	Basic	Diluted	Basic	Diluted
Numerator				
Net income	$4,066	$4,066	$44,705	$44,705
Net income attributable to noncontrolling interests	(57)	(57)	(376)	(376)
Nonforfeitable dividends allocated to unvested restricted shareholders	(119)	(119)	(114)	(114)
Net income attributable to common shareholders	$3,890	$3,890	$44,215	$44,215
Denominator				
Weighted-average shares outstanding	175,857,358	175,857,358	178,395,525	178,395,525
Contingent securities/Share based compensation	-	606,860	-	1,392,786
Weighted-average shares outstanding	175,857,358	176,464,218	178,395,525	179,788,311
Earnings per Common Share:				
Net income attributable to common shareholders	$0.02	$0.02	$0.25	$0.25

Redeemable common limited partnership units totaling 982,871 at March 31, 2019 and 1,479,799 at March 31, 2018, were excluded from the diluted earnings per share computations because they are not dilutive.

Unvested restricted shares are considered participating securities which require the use of the two-class method for the computation of basic and diluted earnings per share. For the three-month periods ended March 31, 2019 and 2018, earnings representing nonforfeitable dividends as noted in the table above were allocated to the unvested restricted shares issued to the Company's executives and other employees under the Company's shareholder-approved long-term incentive plan.

Common Shares

On February 21, 2019, the Parent Company declared a distribution of $0.19 per common share, totaling $33.7 million, which was paid on April 18, 2019 to shareholders of record as of April 4, 2019.

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 authorized the repurchase of up to $150.0 million common shares from and after January 3, 2019. During the three months ended March 31, 2019, the Company repurchased and retired 1,337,169 common shares at an average price of $12.92 per share, totaling $17.3 million.

11. PARTNERS' EQUITY OF THE OPERATING PARTNERSHIP

Earnings per Common Partnership Unit

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

	Three-month periods ended March 31,			
	2019		2018	
	Basic	Diluted	Basic	Diluted
Numerator				
Net income	$4,066	$4,066	$44,705	$44,705
Net income attributable to noncontrolling interests	(34)	(34)	(5)	(5)
Nonforfeitable dividends allocated to unvested restricted unitholders	(119)	(119)	(114)	(114)
Net income attributable to common unitholders	$3,913	$3,913	$44,586	$44,586
Denominator				
Weighted-average units outstanding	176,840,229	176,840,229	179,875,324	179,875,324
Contingent securities/Share based compensation	-	606,860	-	1,392,786
Total weighted-average units outstanding	176,840,229	177,447,089	179,875,324	181,268,110
Earnings per Common Partnership Unit:				
Net income attributable to common unitholders	$0.02	$0.02	$0.25	$0.25

Unvested restricted units are considered participating securities which require the use of the two-class method for the computation of basic and diluted earnings per share. For the three-month periods ended March 31, 2019 and 2018, earnings representing nonforfeitable dividends as noted in the table above were allocated to the unvested restricted units issued to the Parent Company in connection with awards to the Parent Company's executives and other employees under the Parent Company's shareholder-approved long-term incentive plan.

Common Partnership Units

On February 21, 2019, the Operating Partnership declared a distribution of $0.19 per common partnership unit, totaling $33.7 million, which was paid on April 18, 2019 to unitholders of record as of April 4, 2019.

In connection with the Parent Company's common share repurchase program, one common unit of the Operating Partnership is retired for each common share repurchased. During the three months ended March 31, 2019, the Company repurchased and retired 1,337,169 common partnership units at an average price of $12.92 per unit, totaling $17.3 million.

12. SHARE BASED COMPENSATION

Restricted Share Rights Awards

As of March 31, 2019, 626,649 restricted common share rights ("Restricted Share Rights") were outstanding under the Equity Incentive Plan. These Restricted Share Rights generally vest over two to three years from the initial grant dates. The remaining compensation expense to be recognized with respect to these awards at March 31, 2019 was $3.4 million, and is expected to be recognized over a weighted average remaining period of 1.7 years. During the three-month periods ended March 31, 2019 and 2018, the Company recognized compensation expense related to outstanding Restricted Share Rights of $1.6 million and $1.5 million, respectively, of which $0.2 million and $0.3 million, respectively, were capitalized as part of the Company's review of employee salaries eligible for capitalization for both periods.

The following table summarizes the Company's Restricted Share Right activity during the three months ended March 31, 2019:

	Shares	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Non-vested at January 1, 2019	466,439	$ 14.93	$ 70,677
Granted	196,667	15.61	3,070
Vested	(33,020)	15.15	298
Forfeited	(3,437)	15.34	-
Non-vested at March 31, 2019	626,649	15.13	9,939

On February 21, 2019, the Compensation Committee of the Parent Company's Board of Trustees awarded to officers of the Parent Company an aggregate of 196,667 Restricted Share Rights, which generally vest over two to three years from the grant date. Each Restricted Share Right entitles the holder to one common share upon settlement. The Parent Company pays dividend equivalents on the Restricted Share Rights prior to the settlement date. Vesting and/or settlement would accelerate if the recipient of the award were to die, become disabled or, in the case of certain of such Restricted Share Rights, retire in a qualifying retirement prior to the otherwise applicable vesting or settlement date. Qualifying retirement generally means the recipient's voluntary termination of employment after reaching at least age 57 and accumulating at least 15 years of service with the Company. In addition, vesting would also accelerate if the Parent Company were to undergo a change of control and, on or before the first anniversary of the change of control, the recipient's employment were to cease due to a termination without cause or resignation with good reason.

The Restricted Share Rights granted in 2019 to certain senior executives and that vest over three years include an "outperformance feature" whereby additional shares may be earned, up to 200% of the shares subject to the basic award, based on the Company's achievement of targets for same-store net operating cash income growth and development activity provided certain operating and balance sheet metrics are also achieved during the three-year period ending December 31, 2021. Half of any additional shares earned will vest based on continued service through each of January 1, 2022 and January 1, 2023, provided that this additional service requirement will be waived in the event of a death, disability or qualifying retirement. In addition to the basic award, up to 233,890 shares may be awarded under the outperformance feature. These shares have a $3.7 million intrinsic value using a $15.61 weighted average grant date fair value. As of March 31, 2019, the Company has not recognized any compensation expense for these awards as it has been determined that it is not probable that the performance metrics will be achieved. The Company will evaluate progression towards achievement of the performance metrics on a quarterly basis and recognize compensation expense for these awards should it be determined that achievement of these metrics is probable.

In accordance with the accounting standard for share-based compensation, the Company amortizes share-based compensation costs through the qualifying retirement dates for those executives who meet the conditions for qualifying retirement during the scheduled vesting period and whose award agreements provide for vesting upon a qualifying retirement.

Restricted Performance Share Units Plan

The Compensation Committee of the Parent Company's Board of Trustees has granted performance share-based awards (referred to as Restricted Performance Share Units, or RPSUs) to officers of the Parent Company. The RPSUs are settled in common shares, with the number of common shares issuable in settlement determined based on the Parent Company's total shareholder return over specified measurement periods compared to total shareholder returns of an index over the measurement periods. The table below presents certain information as to unvested RPSU awards.

	RPSU Grant			
	3/1/2017	2/28/2018	2/21/2019	Total
(Amounts below in shares, unless otherwise noted)				
Non-vested at January 1, 2019	169,525	206,025	-	375,550
Units Granted	-	-	213,728	213,728
Units Vested	(8,420)	-	-	(8,420)
Units Cancelled	-	(8,975)	-	(8,975)
Non-vested at March 31, 2019	161,105	197,050	213,728	571,883
Measurement Period Commencement Date	1/1/2017	1/1/2018	1/1/2019	
Measurement Period End Date	12/31/2019	12/31/2020	12/31/2021	
Units Granted	174,854	209,193	213,728	
Fair Value of Units on Grant Date (in thousands)	$3,735	$ 4,276	$ 4,627	

The Company values each RPSU on its grant date using a Monte Carlo simulation. The fair values of each award are being amortized over the three year performance period. During the performance period, dividend equivalents are credited as additional RPSU's, subject to the same terms and conditions as the original RPSU's. The performance period will be abbreviated and the delivery of earned shares will be accelerated in the event of a change in control or if the recipient of the award were to die, become disabled or retire in a qualifying retirement prior to the end of the otherwise applicable three year performance period. In accordance with the accounting standard for share-based compensation, the Company amortizes stock-based compensation costs through the qualifying retirement date for those executives who meet the conditions for qualifying retirement during the schedule vesting period.

For the three months ended March 31, 2019, the Company recognized total compensation expense for the 2019, 2018 and 2017 RPSU awards of $2.7 million, of which $0.4 million was capitalized consistent with the Company's policies for capitalizing eligible portions of employee compensation. For the three months ended March 31, 2018, the Company recognized total compensation expense for the 2018, 2017 and 2016 RPSU awards of $2.6 million, of which $0.5 million was capitalized consistent with the Company's policies for capitalizing eligible portions of employee compensation.

The remaining compensation expense to be recognized at March 31, 2019 was approximately $4.0 million, and is expected to be recognized over a weighted average remaining vesting period of 2.1 years.

The Company issued 147,111 common shares on February 1, 2019 in settlement of RPSUs that had been awarded on February 22, 2016 (with a three-year measurement period ended December 31, 2018). Holders of these RPSUs also received a cash dividend of $0.19 per share for these common shares on January 22, 2019.

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13. SEGMENT INFORMATION

As of March 31, 2019, the Company owns and manages properties 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 Philadelphia CBD segment includes properties located in the City of Philadelphia, 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 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. Land held for development and construction in progress is transferred to operating properties by region upon completion of the associated construction or project.

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

Real estate investments, at cost:

	March 31, 2019	December 31, 2018
Philadelphia CBD	$1,683,406	$ 1,670,388
Pennsylvania Suburbs	1,008,066	1,004,537
Austin, Texas	713,189	667,698
Metropolitan Washington, D.C.	524,385	524,190
Other	86,833	86,506
	$4,015,879	$ 3,953,319
Right of use asset - operating leases (a)	$22,175	$ -
Corporate		
Construction-in-progress	$112,176	$ 150,263
Land held for development (b)	$88,047	$ 86,401
Prepaid leasehold interests in land held for development, net (c)	$39,897	$ 39,999

(a) On January 1, 2019, as a result of the adoption of Topic 842, Leases, the Company recognized operating ground leases for which it is a lessee on its consolidated balance sheets for the period ended March 31, 2019. See Note 2, "*Basis of Presentation*," for further information.

(b) As of March 31, 2019, the Company categorized 35.2 acres of land held for development, located in the Other segment, as held for sale in accordance with applicable accounting standards for long lived assets. As of December 31, 2018, the Company categorized 37.9 acres of land held for development, comprised of 2.7 acres and 35.2 acres, located in the Pennsylvania Suburbs segment and Other segment, respectively, as held for sale in accordance with applicable accounting standards for long lived assets. See Note 3, "*Real Estate Investments*," for further information.

(c) As of March 31, 2019 and December 31, 2018, this caption comprised leasehold interests in prepaid 99-year ground leases at 3025 and 3001-3003 JFK Boulevard, in Philadelphia, Pennsylvania.

Net operating income (in thousands):

	Three-month periods ended March 31,					
	2019			2018		
	Total revenue	Operating expenses (a)	Net operating income (loss)	Total revenue	Operating expenses (a)	Net operating income (loss)
Philadelphia CBD	$65,798	$(25,185)	$40,613	$62,602	$(24,327)	$38,275
Pennsylvania Suburbs	35,627	(12,972)	22,655	34,882	(12,964)	21,918
Austin, Texas (b)	24,766	(9,076)	15,690	8,364	(3,523)	4,841
Metropolitan Washington, D.C. (c)	13,520	(6,204)	7,316	23,059	(8,759)	14,300
Other	3,182	(2,145)	1,037	6,141	(4,965)	1,176
Corporate	1,003	(1,799)	(796)	1,310	(1,966)	(656)
Operating properties	$143,896	$(57,381)	$86,515	$136,358	$(56,504)	$79,854

(a) Includes property operating expenses, real estate taxes and third party management expense.
(b) On December 11, 2018, the Company acquired from DRA Advisors its 50% ownership interest in the G&I Austin Office LLC real estate venture. The DRA Austin Venture owned twelve office properties containing an aggregate 1,570,123 square feet, located in Austin, Texas. As a result of the acquisition, the Company acquired complete ownership of the Austin properties.
(c) On December 20, 2018, the Company contributed a portfolio of eight properties containing an aggregate of 1,293,197 square feet, located in its Metropolitan Washington, D.C. segment, known as the Rockpoint Portfolio, to the Herndon Innovation Center Venture. The Company and its partner own 15% and 85% interests in the Herndon Innovation Center Venture, respectively.

Unconsolidated real estate ventures (in thousands):

	Investment in real estate ventures, at equity		Equity in income (loss) of real estate venture	
	As of		Three-month periods ended March 31,	
	March 31, 2019	December 31, 2018	2019	2018
Philadelphia CBD	$19,325	$ 19,897	$78	$(236)
Metropolitan Washington, D.C. (a)	135,149	136,142	(175)	(37)
MAP Venture (b)	5,101	11,173	(1,367)	(736)
Other	1,993	1,888	106	104
Austin, Texas (c)	-	-	-	80
Total	$161,568	$ 169,100	$(1,358)	$(825)

(a) On December 20, 2018, the Company formed the Herndon Innovation Center Venture. See footnote (b) to the “Net operating income” table above for further information regarding this transaction.

(b) The MAP Venture represents a joint venture formed between the Company and MAP Ground Lease Holdings LLC, an affiliate of Och-Ziff Capital Management Group, LLC, on February 4, 2016. The MAP Venture's business operations, including properties in Richmond, Virginia; Metropolitan Washington, D.C.; New Jersey/Delaware and Pennsylvania Suburbs, are centrally managed with the results reported to management of the Company on a consolidated basis. As a result, the investment in the MAP Venture is separately presented. All other unconsolidated real estate ventures are managed consistently with the Company's regional segments.

(c) On December 11, 2018, the Company acquired from DRA Advisors its 50% ownership interest in the G&I Austin Office LLC real estate venture. The DRA Austin Venture owned twelve office properties containing an aggregate 1,570,123 square feet, located in Austin, Texas. As a result of the acquisition, the Company acquired complete ownership of the Austin properties.

Net operating income ("NOI") is a non-GAAP financial measure defined as total revenue less property operating expenses, real estate taxes and third party management expenses. 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 and management fees. 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. All companies may not calculate NOI in the same manner. NOI is the measure that is used by the Company's management to evaluate the operating performance of the Company's real estate assets by segment. The Company believes NOI provides useful information to investors regarding the 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. The Company believes that net income (loss), as defined by GAAP, is the most appropriate earnings measure. The following is a reconciliation of consolidated net income, as defined by GAAP, to consolidated NOI, (in thousands):

	Three-month periods ended March 31,	
	2019	2018
Net income	$4,066	$44,705
Plus:		
Interest expense	20,357	19,533
Interest expense - amortization of deferred financing costs	666	627
Depreciation and amortization	51,980	43,291
General and administrative expenses	9,844	8,723
Equity in loss of Real Estate Ventures	1,358	825
Less:		
Interest income	525	703
Income tax provision	(29)	(138)
Net gain on sale of undepreciated real estate		