

BRANDYWINE REALTY TRUST
Form 10-K
February 19, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 001-9106 (Brandywine Realty Trust)
000-24407 (Brandywine Operating Partnership, L.P.)

Brandywine Realty Trust
Brandywine Operating Partnership, L.P.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

6.90% Series E Cumulative Redeemable Preferred Shares of Beneficial Interest, par value \$0.01 per share (Brandywine Realty Trust)	New York Stock Exchange
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Securities registered pursuant to Section 12(g) of the Act:

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

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

Brandywine Realty Trust Yes No

Brandywine Operating Partnership, L.P. Yes No

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

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Brandywine Realty Trust Yes No

Brandywine Operating Partnership, L.P. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Brandywine Realty Trust Yes No

Brandywine Operating Partnership, L.P. Yes No

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

Brandywine Realty Trust Yes No

Brandywine Operating Partnership, L.P. Yes No

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

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

Brandywine Realty Trust:

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

Brandywine Operating Partnership, L.P.:

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

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

Brandywine Realty Trust Yes No

Brandywine Operating Partnership, L.P. Yes No

As of June 30, 2014, the aggregate market value of the Common Shares of Beneficial Interest held by non-affiliates of Brandywine Realty Trust was \$2,416,656,732 based upon the last reported sale price of \$15.60 per share on the New York Stock Exchange on June 30, 2014. An aggregate of 179,699,423 Common Shares of Beneficial Interest were outstanding as of February 17, 2015.

As of June 30, 2014 the aggregate market value of the 1,763,739 common units of limited partnership ("Units") held by non-affiliates of Brandywine Operating Partnership, L.P. was \$27,514,328 based upon the last reported sale price of \$15.60 per share on the New York Stock Exchange on June 30, 2014 of the Common Shares of Beneficial Interest of Brandywine Realty Trust, the sole general partner of Brandywine Operating Partnership, L.P. (For this computation, the Registrant has excluded the market value of all Units beneficially owned by Brandywine Realty Trust.)

Documents Incorporated By Reference

Portions of the proxy statement for the 2015 Annual Meeting of Shareholders of Brandywine Realty Trust are incorporated by reference into Part III of this Form 10-K.

EXPLANATORY NOTE

This report combines the annual reports on Form 10-K for the year ended December 31, 2014 of Brandywine Realty Trust (the “Parent Company”) and Brandywine Operating Partnership, L.P. (the “Operating Partnership”). The Parent Company is a Maryland real estate investment trust, or REIT, that owns its assets and conducts its operations through the Operating Partnership, a Delaware limited partnership, and subsidiaries of the Operating Partnership. The Parent Company, the Operating Partnership and their consolidated subsidiaries are collectively referred to in this report as the “Company”. In addition, terms such as “we”, “us”, or “our” used in this report may refer to the Company, the Parent Company or the Operating Partnership.

The Parent Company is the sole general partner of the Operating Partnership and as of December 31, 2014, owned a 99.0% interest in the Operating Partnership. The remaining 1.0% interest consists of common units of limited partnership interest issued by the Operating Partnership to third parties in exchange for contributions of properties to the Operating Partnership. As the sole general partner of the Operating Partnership, the Parent Company has full and complete authority over the Operating Partnership’s day-to-day operations and management.

As general partner with control of the Operating Partnership, the Parent Company consolidates the Operating Partnership for financial reporting purposes, and the Parent Company does not have significant assets other than its investment in the Operating Partnership. Therefore, the assets and liabilities of the Parent Company and the Operating Partnership are the same 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.

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

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

- facilitate a better understanding by the investors of the Parent Company and the Operating Partnership by enabling them to view the business as a whole in the same manner as management views and operates the business;
 - remove duplicative disclosures and provide a more straightforward presentation in light of the fact that a substantial portion of the disclosure applies to both the Parent Company and the Operating Partnership; and
 - create time and cost efficiencies through the preparation of one combined report instead of two separate reports.
- There are few differences between the Parent Company and the Operating Partnership, which are reflected in the footnote disclosures in this report. The Company believes it is important to understand the differences between the Parent Company and the Operating Partnership in the context of how these entities operate as an interrelated consolidated company. The Parent Company is a REIT, whose only material asset is its ownership of the partnership interests of the Operating Partnership. As a result, the Parent Company does not conduct business itself, other than acting as the sole general partner of the Operating Partnership, issuing public equity from time to time and guaranteeing the debt obligations of the Operating Partnership. The Operating Partnership holds substantially all the assets of the Company and directly or indirectly holds the ownership interests in the Company’s real estate ventures. The Operating Partnership conducts the operations of the Company’s business and is structured as a partnership with no publicly traded equity. Except for net proceeds from equity issuances by the Parent Company, which are contributed to the Operating Partnership in exchange for partnership units, the Operating Partnership generates the capital required by the Company’s business through the Operating Partnership’s operations, by the Operating Partnership’s direct or indirect incurrence of indebtedness or through the issuance of partnership units of the Operating Partnership or equity interests in subsidiaries of the Operating Partnership.
- The equity and 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.

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

Consolidated Financial Statements;

Parent Company's and Operating Partnership's Equity

This report also includes separate Item 9A. (Controls and Procedures) disclosures and separate Exhibit 31 and 32 certifications for each of the Parent Company and the Operating Partnership in order to establish that the Chief Executive Officer and the Chief Financial Officer of each entity have made the requisite certifications and that the Parent Company and Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. § 1350.

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

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EX-101 INSTANCE DOCUMENT

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EX-101 LABELS LINKBASE DOCUMENT

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EX-101 DEFINITION LINKBASE DOCUMENT

Filing Format

This combined Form 10-K is being filed separately by Brandywine Realty Trust (the “Parent Company”) and Brandywine Operating Partnership, L.P. (the “Operating Partnership”).

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking statements. This Annual Report on Form 10-K and other materials filed by us with the Securities and Exchange Commission (the “SEC”) (as well as information included in oral or other written statements made by us) contain statements that are forward-looking, including statements relating to business and real estate development activities, acquisitions, dispositions, future capital expenditures, financing sources, governmental regulation (including environmental regulation) and competition. We intend such forward-looking statements to be covered by the safe-harbor provisions of the 1995 Act. The words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “will,” “should” and similar expressions, as they relate to us, are intended to identify forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, we can give no assurance that our expectations will be achieved. As forward-looking statements, these statements involve important risks, uncertainties and other factors that could cause actual results to differ materially from the expected results and, accordingly, such results may differ from those expressed in any forward-looking statements made by us or on our behalf. Factors that could cause actual results to differ materially from our expectations include, but are not limited to:

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

inability of real estate venture partners to fund venture obligations or perform under our real estate venture development agreements;
failure to manage effectively our growth into new product types within our real estate venture arrangements;
failure of dispositions to close in a timely manner;
earthquakes and other natural disasters;
the unforeseen impact of climate change and compliance costs relating to laws and regulations governing climate change;
risks associated with federal, state and local tax audits;

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complex regulations relating to our status as a REIT and the adverse consequences of our failure to qualify as a REIT; and the impact of newly adopted accounting principles on our accounting policies and on period-to-period comparisons of financial results.

Given these uncertainties, and the other risks identified in the “Risk Factors” section and elsewhere in this Annual Report on Form 10-K, we caution readers not to place undue reliance on forward-looking statements. We assume no obligation to update or supplement forward-looking statements that become untrue because of subsequent events.

PART I

Item 1. Business

Introduction

We are a self-administered and self-managed REIT that provides leasing, property management, development, redevelopment, acquisition and other tenant-related services for a portfolio of office, industrial, retail and mixed-use properties. As of December 31, 2014, we owned 200 properties that contain an aggregate of approximately 25.1 million net rentable square feet and consist of 167 office properties, 20 industrial facilities, five mixed-use properties, one retail property (193 core properties), two properties classified as held for sale, three development properties, one redevelopment property and one re-entitlement property (collectively, the “Properties”). In addition, as of December 31, 2014, we owned economic interests in 17 unconsolidated real estate ventures that own properties that contain approximately 6.7 million net rentable square feet (collectively, the “Real Estate Ventures”). As of December 31, 2014, we also owned 415 acres of undeveloped land, and held options to purchase approximately 63 additional acres of undeveloped land. As of December 31, 2014, the total potential development that these land parcels could support under current zoning, entitlements or combination thereof, amounted to 6.0 million square feet. The Properties and the properties owned by the Real Estate Ventures are located in or near Philadelphia, Pennsylvania; Metropolitan Washington, D.C.; Southern New Jersey; Richmond, Virginia; Wilmington, Delaware; Austin, Texas and Oakland, Concord, and Carlsbad, California. In addition to managing properties that we own, as of December 31, 2014, we were managing approximately 8.9 million net rentable square feet of office and industrial properties for third parties and Real Estate Ventures. Unless otherwise indicated, all references in this Form 10-K to square feet represent net rentable area. We do not have any foreign operations and our business is not seasonal. Our operations are not dependent on a single tenant or a few tenants and no single tenant accounted for more than 10% of our total 2014 revenue.

Organization

The Parent Company was organized and commenced its operations in 1986 as a Maryland REIT. The Parent Company owns its assets and conducts its operations through the Operating Partnership and subsidiaries of the Operating Partnership. The Operating Partnership was formed in 1996 as a Delaware limited partnership. The Parent Company controls the Operating Partnership as its sole general partner. As of December 31, 2014, the Parent Company owned a 99.0% interest in the Operating Partnership. The remaining 1.0% interest in the Operating Partnership consists of common units of limited partnership interest issued to the holders in exchange for contributions of properties to the Operating Partnership. Our structure as an “UPREIT” is designed, in part, to permit persons contributing properties to us to defer some or all of the tax liability they might otherwise incur in a sale of properties. Our executive offices are located at 555 East Lancaster Avenue, Suite 100, Radnor, Pennsylvania 19087 and our telephone number is (610) 325-5600. We have offices in Philadelphia, Pennsylvania; McLean, Virginia; Mount Laurel, New Jersey; Richmond, Virginia; Austin, Texas; and Carlsbad, California. We have an internet website at www.brandywinerealty.com. We are not incorporating by reference into this Annual Report on Form 10-K any material from our website. The reference to our website is an inactive textual reference to the uniform resource locator (URL) and is for your reference only.

2014 Transactions

Real Estate Acquisitions

On February 19, 2014, we acquired 54.1 acres of undeveloped land known as Encino Trace in Austin, Texas for \$14.0 million. The land is fully entitled with a site plan and building permits in place allowing for the development of two four-story office buildings containing approximately 320,000 rentable square feet. The purchase price included an in-place lease for 75% of the first building. We capitalized \$8.4 million in construction in progress, recorded \$4.6 million in land inventory and recorded a deposit for a portion of the future development fee held in escrow of \$1.0 million. We funded the acquisition with available corporate funds. See “Developments” below for further discussion of construction progress.

Real Estate Dispositions

On October 24, 2014, we sold the Valleybrooke Office Park, comprised of five properties consisting of 279,934 rentable square feet, located in Malvern, Pennsylvania for a sales price of \$37.9 million. During the third quarter of 2014, we recognized a \$1.8 million impairment loss on these properties. On October 24, 2014, we recorded a gain of \$0.2 million upon settlement.

On September 30, 2014, we sold an office building, commonly known as "Campus Pointe," containing 172,943 rentable square feet at 1880 Campus Commons Drive in Reston, Virginia for a sales price of \$42.5 million, resulting in a gain on sale of \$4.7 million after closing and other transaction related costs.

On April 16, 2014, we sold a 5.3 acre parcel of land located in Dallas, Texas for a sales price of \$1.6 million resulting in a nominal gain on sale of undepreciated real estate after closing and other transaction related costs. The land parcel was undeveloped as of the date of sale.

On April 3, 2014, we contributed two three-story, Class A office buildings, commonly known as "Four Points Centre," containing an aggregate of approximately 192,396 net rentable square feet in Austin, Texas to an existing real estate venture (the "Austin Venture") that we formed in 2013 with G&I VII Austin Office LLC, an investment vehicle advised by DRA Advisors LLC ("DRA"). We contributed the property to the Austin Venture at an agreed upon value of \$41.5 million. In conjunction with the contribution: (i) the Austin Venture obtained a \$29.0 million mortgage loan; (ii) DRA contributed \$5.9 million in net cash to the capital of the Austin Venture; and (iii) the Austin Venture distributed \$34.4 million to us and credited us with a \$5.9 million capital contribution to the Austin Venture.

On March 27, 2014, we sold a 16.8 acre undeveloped parcel of land located in Austin, Texas for a sales price of \$3.5 million, resulting in \$1.2 million gain on sale of undepreciated real estate after closing and other transaction related costs. The land parcel was undeveloped as of the date of sale.

Held for Sale

On January 8, 2015, we sold two office properties, commonly known as "Atrium I," which includes 99,668 square feet of rentable space located in Mt Laurel, New Jersey and "Libertyview," which includes 121,737 square feet of rentable space located in Cherry Hill, New Jersey. As of December 31, 2014, we classified Atrium I and Libertyview as held for sale in accordance with applicable accounting standards for long lived assets.

The operating results of the property dispositions listed above remain classified within continuing operations for all periods presented.

Austin Venture - River Place

On October 17, 2014, the Austin Venture acquired River Place, comprised of seven Class A office buildings containing 591,000 rentable square feet located in Austin, Texas for \$128.1 million. The transaction was funded through a combination of an \$88.0 million short-term loan, secured by a mortgage, that we made to the Austin Venture and cash capital contributions of \$18.9 million made by each of DRA and us to the Austin Venture. The loan agreement for our short-term loan had provided for financing from us through March 2015 at the following tiered interest rates; (i) 4.0% through December 31, 2014, (ii) 5.0% from January 1, 2015 through January 31, 2015, (iii) 7.0% from February 1, 2015 through February 28, 2015 and (iv) 9.0% from March 1, 2015 through March 31, 2015. On January 30, 2015, the Austin Venture closed on a mortgage loan with a non-affiliated institutional lender, and a portion of the proceeds of this loan was applied to repay in full our short-term loan.

Austin Venture - The Crossings

On July 31, 2014, the Austin Venture acquired the Crossings at Lakeline, comprised of two three-story buildings containing an aggregate of 232,274 rentable square feet located in the Far Northwest submarket of Austin, Texas for \$48.2 million. The transaction was funded with \$34.5 million of proceeds of a 3.87% fixed rate mortgage loan from a non-affiliated institutional lender and \$12.8 million (net of \$0.9 million in purchase adjustments) of cash capital contributions, with \$6.4 million from each of DRA and us.

Austin Venture - Four Points Centre

See discussion of Four Points Centre in the Dispositions section of Note 3, "Real Estate Investments."

We continually assess our portfolio in light of our strategic and economic considerations to determine whether to sell properties in the portfolio. Sales of properties, and determinations to hold properties for sale, may result in an impairment or other loss, and such loss could be material to our statement of operations.

Developments

As of December 31, 2014, we owned 415 acres of undeveloped land, and held options to purchase approximately 63 additional acres of undeveloped land.

We are a party to a development agreement and related ground leases with the University of Pennsylvania covering two adjacent parcels of land. As described below under "evo at Cira Centre South Venture Development" (otherwise referred to as "evo at Cira"), on January 25, 2013, we contributed our development and ground lease rights in one of the land parcels to evo at Cira, a real estate venture, which has substantially completed construction of, and placed into service, a student housing tower on the parcel.

FMC Tower at Cira Centre South

As to the oth