

BRANDYWINE REALTY TRUST
Form 10-Q
April 26, 2018

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, 2018

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission file number

001-9106 (Brandywine Realty Trust)

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

Brandywine Realty Trust

Brandywine Operating Partnership, L.P.

(Exact name of registrant as specified in its charter)

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

Edgar Filing: BRANDYWINE REALTY TRUST - Form 10-Q

2929 Walnut Street

Suite 1700

Philadelphia, Pennsylvania

(Address of principal executive offices)

19104

(Zip Code)

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

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

Brandywine Realty Trust Yes No

Brandywine Operating Partnership, L.P. Yes No

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

Brandywine Realty Trust Yes No

Brandywine Operating Partnership, L.P. Yes No

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

Brandywine Realty Trust:

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

Brandywine Operating Partnership, L.P.:

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

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

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

Brandywine Realty Trust Yes No

Brandywine Operating Partnership, L.P. Yes No

Edgar Filing: BRANDYWINE REALTY TRUST - Form 10-Q

A total of 178,530,101 Common Shares of Beneficial Interest, par value \$0.01 per share of Brandywine Realty Trust, were outstanding as of April 20, 2018.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended March 31, 2018 of Brandywine Realty Trust (the “Parent Company”) and Brandywine Operating Partnership L.P. (the “Operating Partnership”). The Parent Company is a Maryland real estate investment trust, or REIT, that owns its assets and conducts its operations through the Operating Partnership, a Delaware limited partnership, and subsidiaries of the Operating Partnership. The Parent Company, the Operating Partnership and their consolidated subsidiaries are collectively referred to in this report as the “Company”. In addition, 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, 2018, owned a 99.2% interest in the Operating Partnership. The remaining 0.8% interest consists of common units of limited partnership interest issued by the Operating Partnership to third parties in exchange for contributions of properties to the Operating Partnership. As the sole general partner of the Operating Partnership, the Parent Company has full and complete authority over the Operating Partnership’s day-to-day operations and management.

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

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

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

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

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

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

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

2

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.

TABLE OF CONTENTS

	Page
<u>PART I — FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
Brandywine Realty Trust	
<u>Financial Statements of Brandywine Realty Trust</u>	5
<u>Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017</u>	5
<u>Consolidated Statements of Operations for the three-month periods ended March 31, 2018 and 2017</u>	6
<u>Consolidated Statements of Comprehensive Income for the three-month periods ended March 31, 2018 and 2017</u>	7
<u>Consolidated Statements of Beneficiaries' Equity for the three-month periods ended March 31, 2018 and 2017</u>	8
<u>Consolidated Statements of Cash Flows for the three-month periods ended March 31, 2018 and 2017</u>	10
Brandywine Operating Partnership, L.P.	
<u>Financial Statements of Brandywine Operating Partnership, L.P.</u>	11
<u>Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017</u>	11
<u>Consolidated Statements of Operations for the three-month periods ended March 31, 2018 and 2017</u>	12
<u>Consolidated Statements of Comprehensive Income for the three-month periods ended March 31, 2018 and 2017</u>	13
<u>Consolidated Statements of Partners' Equity for the three-month periods ended March 31, 2018 and 2017</u>	14
<u>Consolidated Statements of Cash Flows for the three-month periods ended March 31, 2018 and 2017</u>	16
<u>Notes to Unaudited Consolidated Financial Statements</u>	17
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	39
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	56
<u>Item 4. Controls and Procedures</u>	56
<u>PART II — OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	58

<u>Item 1A. Risk Factors</u>	58
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	58
<u>Item 3. Defaults Upon Senior Securities</u>	58
<u>Item 4. Mine Safety Disclosures</u>	58
<u>Item 5. Other Information</u>	58
<u>Item 6. Exhibits</u>	59
<u>Signatures</u>	61

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, 2018 (unaudited)	December 31, 2017
ASSETS		
Real estate investments:		
Operating properties	\$3,864,706	\$ 3,832,348
Accumulated depreciation	(920,207)	(895,091)
Operating real estate investments, net	2,944,499	2,937,257
Construction-in-progress	129,413	121,188
Land held for development	99,436	98,242
Total real estate investments, net	3,173,348	3,156,687
Assets held for sale, net	-	392
Cash and cash equivalents	200,813	202,179
Accounts receivable, net of allowance of \$3,935 and \$3,467 as of March 31, 2018 and December 31, 2017, respectively	17,794	17,938
Accrued rent receivable, net of allowance of \$13,409 and \$13,645 as of March 31, 2018 and December 31, 2017, respectively	174,236	169,760
Investment in Real Estate Ventures, equity method	171,383	194,621
Deferred costs, net	97,299	96,695
Intangible assets, net	63,614	64,972
Other assets	139,449	92,204
Total assets	\$4,037,936	\$ 3,995,448
LIABILITIES AND BENEFICIARIES' EQUITY		
Mortgage notes payable, net	\$325,974	\$ 317,216
Unsecured term loans, net	248,512	248,429
Unsecured senior notes, net	1,365,546	1,365,183
Accounts payable and accrued expenses	105,176	107,074
Distributions payable	32,502	32,456
Deferred income, gains and rent	58,887	42,593
Acquired lease intangibles, net	19,510	20,274
Other liabilities	14,588	15,623
Total liabilities	\$2,170,695	\$ 2,148,848
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; 178,442,517 and 178,285,236 issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	1,785	1,784
Additional paid-in-capital	3,222,047	3,218,564
Deferred compensation payable in common shares	13,506	12,445

Edgar Filing: BRANDYWINE REALTY TRUST - Form 10-Q

Common shares in grantor trust, 948,592 and 894,736 as of March 31, 2018 and December 31, 2017, respectively	(13,506)	(12,445)
Cumulative earnings	704,506	660,174
Accumulated other comprehensive income	7,365	2,399
Cumulative distributions	(2,086,000)	(2,053,741)
Total Brandywine Realty Trust's equity	1,849,703	1,829,180
Noncontrolling interests	17,538	17,420
Total beneficiaries' equity	\$1,867,241	\$1,846,600
Total liabilities and beneficiaries' equity	\$4,037,936	\$3,995,448

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, 2018	2017
Revenue		
Rents	\$ 106,360	\$ 103,332
Tenant reimbursements	19,849	18,535
Termination fees	550	1,673
Third party management fees, labor reimbursement and leasing	7,674	6,485
Other	1,925	895
Total revenue	136,358	130,920
Operating expenses		
Property operating expenses	39,332	36,885
Real estate taxes	12,422	11,749
Third party management expenses	4,750	2,447
Depreciation and amortization	43,291	45,892
General and administrative expenses	8,723	9,325
Provision for impairment	-	2,730
Total operating expenses	108,518	109,028
Operating income	27,840	21,892
Other income (expense)		
Interest income	703	393
Interest expense	(19,533)	(21,437)
Interest expense - amortization of deferred financing costs	(627)	(634)
Equity in loss of Real Estate Ventures	(825)	(748)
Net gain on disposition of real estate	-	7,323
Net gain on sale of undepreciated real estate	22	-
Net gain on Real Estate Venture transactions	37,263	14,582
Net income before income taxes	44,843	21,371
Income tax provision	(138)	(100)
Net income	44,705	21,271
Net income attributable to noncontrolling interests	(376)	(169)
Net income attributable to Brandywine Realty Trust	44,329	21,102
Distribution to preferred shareholders	-	(1,725)
Nonforfeitable dividends allocated to unvested restricted shareholders	(114)	(99)
Net income attributable to Common Shareholders of Brandywine Realty Trust	\$ 44,215	\$ 19,278
Basic income per Common Share	\$ 0.25	\$ 0.11
Diluted income per Common Share	\$ 0.25	\$ 0.11
Basic weighted average shares outstanding	178,395,525	175,176,964
Diluted weighted average shares outstanding	179,788,311	176,201,872

Distributions declared per Common Share	\$0.18	\$0.16
---	--------	--------

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,	
	2018	2017
Net income	\$44,705	\$21,271
Comprehensive income:		
Unrealized gain on derivative financial instruments	4,696	1,014
Amortization of interest rate contracts (1)	312	286
Total comprehensive income	5,008	1,300
Comprehensive income	49,713	22,571
Comprehensive income attributable to noncontrolling interest	(418)	(181)
Comprehensive income attributable to Brandywine Realty Trust	\$49,295	\$22,390

(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, 2018

(unaudited, in thousands, except number of shares)

	Number of Common Shares	Number of Rabbi Trust/Deferred Compensation Shares	Trust's Beneficiary Interest	Additional Paid-in Capital	Deferred Compensation Payable Common Shares in Trust	Common Grantor Trust	Cumulative Earnings	Accumulated Other Comprehensive Income	Cumulative Distributions	Noncontrolling Interests	Total
Balance, December 31,	178,285,236	894,736	\$ 1,784	\$ 3,218,564	\$ 12,445	\$(12,445)	\$ 660,174	\$ 2,399	\$(2,053,741)	\$ 17,420	\$ 1,846,705
Income							44,329			376	44,705
Other Comprehensive Income								4,966		42	5,008
Change of Number of Common Shares of Official Trust	23,311			416							416
Change of Ownership Interest in Consolidated Trust Share Distributions										15	15
Consolidated Trust Share Distributions										(54)	(54)
Share-based Compensation Activity	68,425		1	3,072			3				3,076
Share Issuance (/to)	66,830	53,856			1,061	(1,061)					-
Share Choice Issuance	(1,285)										-

Location of controlling interest					(5)					5	-	
Distributions declared (\$0.18 share)										(32,259)	(266)	(32,525)
ASSETS, December 31, 2018	178,442,517	948,592	\$1,785	\$3,222,047	\$13,506	\$(13,506)	\$704,506	\$7,365	\$(2,086,000)	\$17,538	\$1,867,000	

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

BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENT OF BENEFICIARIES' EQUITY

For the three-month period ended March 31, 2017

(unaudited, in thousands, except number of shares)

Number of Preferred Shares	Par Value of Preferred Shares	Number of Common Shares	Number of Rabbi Trust/Deferred Compensation Shares	Common Shares of Brandywine Realty Trust's Beneficial interest	Additional Paid-in Capital	Deferred Compensation Payable in Common Shares	Common Shares in Grantor Trust	Cumulative Earnings	Accumulated Other Comprehensive Income (Loss)	Cumulative Distributions	Noncontrolling Interests
4,000,000	\$40	175,140,760	899,457	\$1,752	\$3,258,870	\$13,684	\$(13,684)	\$539,319	\$(1,745)	\$(1,931,892)	\$17,093
								21,102			169
									1,288		12
											29
					(219)						
		6,752			110						
		56,669	39,870		3,769			1			
		(354)	(2,388)		(48)	560	(560)				
		(1,423)									
					(23)						23
									(1,725)		

