Section 1: 10-Q (10-Q)

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, 2020

or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to

Brandywine Realty Trust
Brandywine Operating Partnership, L.P.

(Exact name of registrant as specified in its charter)

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

Maryland		
(Brandywine Realty Trust)	**001-9106**	**23-2413352**
Delaware		
(Brandywine Operating Partnership, L.P.)	**000-24407**	**23-2862640**
(State or Other Jurisdiction of Incorporation or Organization)	(Commission file number)	(I.R.S. Employer Identification Number)

2929 Walnut Street
Suite 1700
Philadelphia, PA 19104
(Address of principal executive offices) (Zip Code)

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

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

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 170,495,608 Common Shares of Beneficial Interest, par value $0.01 per share of Brandywine Realty Trust, were outstanding as of April 23, 2020.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended March 31, 2020 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, 2020, 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:

- 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 contributing the net proceeds of such issuances to the Operating Partnership) and guaranteeing the debt obligations of the Operating Partnership. The Operating Partnership holds substantially all the assets of the Company, including the Company's ownership interests in the real estate ventures described below. 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.

TABLE OF CONTENTS

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

	March 31, 2020	December 31, 2019
ASSETS		
Real estate investments:		
Operating properties	$ 4,004,118	$ 4,006,459
Accumulated depreciation	(992,997)	(973,318)
Right of use asset - operating leases, net	21,485	21,656
Operating real estate investments, net	3,032,606	3,054,797
Construction-in-progress	193,160	180,718
Land held for development	108,213	96,124
Prepaid leasehold interests in land held for development, net	39,490	39,592
Total real estate investments, net	3,373,469	3,371,231
Assets held for sale, net	10,698	7,349
Cash and cash equivalents	52,702	90,499
Accounts receivable, net of allowance of $284 as of both March 31, 2020 and December 31, 2019	16,928	16,363
Accrued rent receivable, net of allowance of $7,484 and $7,691 as of March 31, 2020 and December 31, 2019, respectively	175,277	174,144
Investment in Real Estate Ventures	119,998	120,294
Deferred costs, net	94,336	95,560
Intangible assets, net	75,670	84,851
Other assets	126,264	115,678
Total assets	$ 4,045,342	$ 4,075,969
LIABILITIES AND BENEFICIARIES' EQUITY		
Mortgage notes payable, net	$ 312,001	$ 313,812
Unsecured credit facility	50,000	—
Unsecured term loan, net	248,692	248,561
Unsecured senior notes, net	1,581,907	1,582,045
Accounts payable and accrued expenses	109,755	113,347
Distributions payable	32,692	33,815
Deferred income, gains and rent	34,673	35,284
Intangible liabilities, net	20,605	22,263
Lease liability - operating leases	22,606	22,554
Other liabilities	28,597	15,985
Total liabilities	$ 2,441,528	$ 2,387,666
Commitments and contingencies (See Note 15)		
Brandywine Realty Trust's Equity:		
Common Shares of Brandywine Realty Trust's beneficial interest, $0.01 par value; shares authorized 400,000,000; 170,965,987 and 176,480,095 issued and outstanding as of March 31, 2020 and December 31, 2019, respectively	1,710	1,766
Additional paid-in-capital	3,140,194	3,192,158
Deferred compensation payable in common shares	17,012	16,216
Common shares in grantor trust, 1,117,783 and 1,105,542 issued and outstanding as of March 31, 2020 and December 31, 2019, respectively	(17,012)	(16,216)
Cumulative earnings	812,578	804,556
Accumulated other comprehensive loss	(10,195)	(2,370)
Cumulative distributions	(2,350,733)	(2,318,233)
Total Brandywine Realty Trust's equity	1,593,554	1,677,877
Noncontrolling interests	10,260	10,426

Total beneficiaries' equity	$ 1,603,814	$ 1,688,303
Total liabilities and beneficiaries' equity	$ 4,045,342	$ 4,075,969

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 Months Ended March 31,	
	2020	2019
Revenue		
Rents	$ 139,204	$ 138,098
Third party management fees, labor reimbursement and leasing	4,954	3,955
Other	930	1,843
Total revenue	145,088	143,896
Operating expenses		
Property operating expenses	37,461	39,500
Real estate taxes	16,787	15,783
Third party management expenses	2,662	2,117
Depreciation and amortization	52,038	51,444
General and administrative expenses	8,561	9,844
Total operating expenses	117,509	118,688
Gain on sale of real estate		
Net gain on disposition of real estate	2,586	—
Net gain on sale of undepreciated real estate	—	1,001
Total gain on sale of real estate	2,586	1,001
Operating income	30,165	26,209
Other income (expense):		
Interest income	575	525
Interest expense	(20,009)	(20,357)
Interest expense - amortization of deferred financing costs	(749)	(666)
Equity in loss of Real Estate Ventures	(1,891)	(1,358)
Net gain on real estate venture transactions	—	259
Net income before income taxes	8,091	4,612
Income tax provision	(4)	(29)
Net income	8,087	4,583
Net income attributable to noncontrolling interests	(65)	(60)
Net income attributable to Brandywine Realty Trust	8,022	4,523
Nonforfeitable dividends allocated to unvested restricted shareholders	(131)	(119)
Net income attributable to Common Shareholders of Brandywine Realty Trust	$ 7,891	$ 4,404
Basic income per Common Share	$ 0.04	$ 0.03
Diluted income per Common Share	$ 0.04	$ 0.02
Basic weighted average shares outstanding	176,069,968	175,857,358
Diluted weighted average shares outstanding	176,653,459	176,464,218

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

BRANDYWINE REALTY TRUST
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited, in thousands)

	Three Months Ended March 31,	
	2020	**2019**
Net income	$ 8,087	$ 4,583
Comprehensive loss:		
Unrealized loss on derivative financial instruments	(8,057)	(2,689)
Amortization of interest rate contracts (1)	188	206
Total comprehensive loss	(7,869)	(2,483)
Comprehensive income	218	2,100
Comprehensive income attributable to noncontrolling interest	(21)	(44)
Comprehensive income attributable to Brandywine Realty Trust	$ 197	$ 2,056

(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
(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	Noncontrolling Interests	Total
BALANCE, beginning of period	**176,480,095**	**1,105,542**	**$ 1,766**	**$3,192,158**	**$ 16,216**	**$ (16,216)**	**$ 804,556**	**$ (2,370)**	**$(2,318,233)**	**$ 10,426**	**$1,688,303**
Net income							8,022			65	8,087
Other comprehensive loss								(7,825)		(44)	(7,869)
Repurchase and retirement of Common Shares of Beneficial Interest	(5,644,200)		(57)	(53,801)							(53,858)
Share-based compensation activity	142,468	50,967	1	2,030							2,031
Share Issuance from/(to) Deferred Compensation Plan	(12,376)	(38,726)		(193)	796	(796)					(193)
Distributions declared ($0.19 per share)									(32,500)	(187)	(32,687)
BALANCE, March 31, 2020	**170,965,987**	**1,117,783**	**$ 1,710**	**$3,140,194**	**$ 17,012**	**$ (17,012)**	**$ 812,578**	**$ (10,195)**	**$(2,350,733)**	**$ 10,260**	**$1,603,814**

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

BRANDYWINE REALTY TRUST
CONSOLIDATED STATEMENT OF BENEFICIARIES' EQUITY
(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	Noncontrolling Interests	Total
BALANCE, beginning of period	**176,873,324**	**977,120**	**$ 1,770**	**$3,200,312**	**$ 14,021**	**$ (14,021)**	**$ 775,625**	**$ 5,029**	**$ (2,183,909)**	**$ 12,201**	**$1,811,028**
Cumulative effect of accounting change							(5,336)				(5,336)
Net income							4,523			60	4,583
Other comprehensive loss								(2,469)		(14)	(2,483)
Repurchase and retirement of Common Shares of Beneficial Interest	(1,337,169)		(13)	(17,268)							(17,281)
Issuance of partnership interest in consolidated real estate ventures										22	22
Share-based compensation activity	465,883	41,342	4	3,673							3,677
Share Issuance from/(to) Deferred Compensation Plan	(458)	(5,920)			619	(619)					—
Reallocation of Noncontrolling interest				57						(57)	—
Distributions declared ($0.19 per share)									(33,560)	(187)	(33,747)
BALANCE, March 31, 2019	**176,001,580**	**1,012,542**	**$ 1,761**	**$3,186,774**	**$ 14,640**	**$ (14,640)**	**$ 774,812**	**$ 2,560**	**$ (2,217,469)**	**$ 12,025**	**$1,760,463**

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

BRANDYWINE REALTY TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Three Months Ended March 31,	
	2020	**2019**
Cash flows from operating activities:		
Net income	$ 8,087	$ 4,583
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	52,038	51,444
Amortization of deferred financing costs	749	666
Amortization of debt discount/(premium), net	(395)	175
Amortization of stock compensation costs	2,349	3,449
Straight-line rent income	(2,183)	(4,165)
Amortization of acquired above (below) market leases, net	(1,495)	(1,805)
Ground rent expense	366	370
Provision for doubtful accounts	213	—
Net gain on sale of interests in real estate	(2,586)	(1,001)
Loss from Real Estate Ventures, net of distributions	1,890	1,159
Income tax provision	4	29
Changes in assets and liabilities:		
Accounts receivable	(1,348)	(3,539)
Other assets	(14,548)	(39,088)
Accounts payable and accrued expenses	(1,213)	(10,822)
Deferred income, gains and rent	(230)	(3,148)
Other liabilities	3,360	19,459
Net cash provided by operating activities	45,058	17,766
Cash flows from investing activities:		
Acquisition of properties	(11,432)	—
Proceeds from the sale of properties	17,711	5,273
Proceeds from real estate venture sales	—	259
Proceeds from repayment of mortgage notes receivable	—	15
Capital expenditures for tenant improvements	(13,707)	(14,978)
Capital expenditures for redevelopments	(9,973)	(10,777)
Capital expenditures for developments	(19,426)	(18,645)
Advances for the purchase of tenant assets, net of repayments	585	(1,615)
Investment in unconsolidated Real Estate Ventures	—	(182)
Deposits for real estate	(1,011)	3,152
Capital distributions from Real Estate Ventures	—	1,851
Leasing costs paid	(5,315)	(5,696)
Net cash used in investing activities	(42,568)	(41,343)
Cash flows from financing activities:		
Repayments of mortgage notes payable	(1,945)	(1,871)
Proceeds from credit facility borrowings	66,000	198,000
Repayments of credit facility borrowings	(16,000)	(130,000)
Proceeds from the exercise of stock options	47	800
Shares used for employee taxes upon vesting of share awards	(722)	(1,230)
Partner contributions to consolidated real estate venture	—	23
Repurchase and retirement of common shares	(53,857)	(17,282)
Distributions paid to shareholders	(33,622)	(33,084)
Distributions to noncontrolling interest	(187)	(187)
Net cash provided by (used in) financing activities	(40,286)	15,169
Decrease in cash and cash equivalents and restricted cash	(37,796)	(8,408)
Cash and cash equivalents and restricted cash at beginning of year	91,170	23,211

Cash and cash equivalents and restricted cash at end of period	$	53,374	$	14,803
Reconciliation of cash and cash equivalents and restricted cash:				
Cash and cash equivalents, beginning of period	$	90,499	$	22,842
Restricted cash, beginning of period		671		369
Cash and cash equivalents and restricted cash, beginning of period	$	91,170	$	23,211
Cash and cash equivalents, end of period	$	52,702	$	14,449
Restricted cash, end of period		672		354
Cash and cash equivalents and restricted cash, end of period	$	53,374	$	14,803
Supplemental disclosure:				
Cash paid for interest, net of capitalized interest during the three months ended March 31, 2020 and 2019 of $1,201 and $728, respectively	$	12,961	$	14,251
Cash paid for income taxes		1		—
Supplemental disclosure of non-cash activity:				
Dividends and distributions declared but not paid		32,692		34,107
Change in capital expenditures financed through accounts payable at period end		2,745		(1,080)
Change in capital expenditures financed through retention payable at period end		23		(4,503)

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

BRANDYWINE OPERATING PARTNERSHIP, L.P.
CONSOLIDATED BALANCE SHEETS
(unaudited, in thousands, except unit and per unit information)

	March 31, 2020	December 31, 2019
ASSETS		
Real estate investments:		
Operating properties	$ 4,004,118	$ 4,006,459
Accumulated depreciation	(992,997)	(973,318)
Right of use asset - operating leases, net	21,485	21,656
Operating real estate investments, net	3,032,606	3,054,797
Construction-in-progress	193,160	180,718
Land held for development	108,213	96,124
Prepaid leasehold interests in land held for development, net	39,490	39,592
Total real estate investments, net	3,373,469	3,371,231
Assets held for sale, net	10,698	7,349
Cash and cash equivalents	52,702	90,499
Accounts receivable, net of allowance of $284 as of both March 31, 2020 and December 31, 2019	16,928	16,363
Accrued rent receivable, net of allowance of $7,484 and $7,691 as of March 31, 2020 and December 31, 2019, respectively	175,277	174,144
Investment in Real Estate Ventures	119,998	120,294
Deferred costs, net	94,336	95,560
Intangible assets, net	75,670	84,851
Other assets	126,264	115,678
Total assets	$ 4,045,342	$ 4,075,969
LIABILITIES AND PARTNERS' EQUITY		
Mortgage notes payable, net	$ 312,001	$ 313,812
Unsecured credit facility	50,000	—
Unsecured term loan, net	248,692	248,561
Unsecured senior notes, net	1,581,907	1,582,045
Accounts payable and accrued expenses	109,755	113,347
Distributions payable	32,692	33,815
Deferred income, gains and rent	34,673	35,284
Intangible liabilities, net	20,605	22,263
Lease liability - operating leases	22,606	22,554
Other liabilities	28,597	$ 15,985
Total liabilities	$ 2,441,528	2,387,666
Commitments and contingencies (See Note 15)		
Redeemable limited partnership units at redemption value; 981,634 issued and outstanding as of March 31, 2020 and December 31, 2019, respectively	9,981	15,388
Brandywine Operating Partnership, L.P.'s equity:		
General Partnership Capital; 170,965,987 and 176,480,095 units issued and outstanding as of March 31, 2020 and December 31, 2019, respectively	1,603,314	1,674,539
Accumulated other comprehensive income	(10,584)	(2,715)
Total Brandywine Operating Partnership, L.P.'s equity	1,592,730	1,671,824
Noncontrolling interest - consolidated real estate ventures	1,103	1,091
Total partners' equity	$ 1,593,833	$ 1,672,915
Total liabilities and partners' equity	$ 4,045,342	$ 4,075,969

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 Months Ended March 31,	
	2020	**2019**
Revenue		
Rents	$ 139,204	$ 138,098
Third party management fees, labor reimbursement and leasing	4,954	3,955
Other	930	1,843
Total revenue	145,088	143,896
Operating expenses		
Property operating expenses	37,461	39,500
Real estate taxes	16,787	15,783
Third party management expenses	2,662	2,117
Depreciation and amortization	52,038	51,444
General and administrative expenses	8,561	9,844
Total operating expenses	117,509	118,688
Gain on sale of real estate		
Net gain on disposition of real estate	2,586	—
Net gain on sale of undepreciated real estate	—	1,001
Total gain on sale of real estate	2,586	1,001
Operating income	30,165	26,209
Other income (expense):		
Interest income	575	525
Interest expense	(20,009)	(20,357)
Interest expense - amortization of deferred financing costs	(749)	(666)
Equity in loss of Real Estate Ventures	(1,891)	(1,358)
Net gain on real estate venture transactions	—	259
Net income before income taxes	8,091	4,612
Income tax provision	(4)	(29)
Net income	8,087	4,583
Net income attributable to noncontrolling interests - consolidated real estate ventures	(12)	(34)
Net income attributable to Brandywine Operating Partnership	8,075	4,549
Nonforfeitable dividends allocated to unvested restricted unitholders	(131)	(119)
Net income attributable to Common Partnership Unitholders of Brandywine Operating Partnership, L.P.	$ 7,944	$ 4,430
Basic income per Common Partnership Unit	$ 0.04	$ 0.03
Diluted income per Common Partnership Unit	$ 0.04	$ 0.02
Basic weighted average common partnership units outstanding	177,051,602	176,840,229
Diluted weighted average common partnership units outstanding	177,635,093	177,447,089

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 Months Ended March 31,	
	2020	**2019**
Net income	$ 8,087	$ 4,583
Comprehensive loss:		
Unrealized loss on derivative financial instruments	(8,057)	(2,689)
Amortization of interest rate contracts (1)	188	206
Total comprehensive loss	(7,869)	(2,483)
Comprehensive income	218	2,100
Comprehensive income attributable to noncontrolling interest - consolidated real estate ventures	(12)	(34)
Comprehensive income attributable to Brandywine Operating Partnership	$ 206	$ 2,066

(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
(unaudited, in thousands, except number of units)

	General Partner Capital				
	Units	Amount	Accumulated Other Comprehensive Income	Noncontrolling Interest - Consolidated Real Estate Ventures	Total Partners' Equity
BALANCE, beginning of period	176,480,095	$ 1,674,539	$ (2,715)	$ 1,091	**$ 1,672,915**
Net income		8,075		12	**8,087**
Other comprehensive loss			(7,869)		**(7,869)**
Deferred compensation obligation	(12,376)	(193)			**(193)**
Repurchase and retirement of LP units	(5,644,200)	(53,858)			**(53,858)**
Share-based compensation activity	142,468	2,031			**2,031**
Adjustment of redeemable partnership units to liquidation value at period end		5,220			**5,220**
Distributions declared to general partnership unitholders ($0.19 per unit)		(32,500)			**(32,500)**
BALANCE, March 31, 2020	**170,965,987**	**$ 1,603,314**	**$ (10,584)**	**$ 1,103**	**$ 1,593,833**

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

BRANDYWINE OPERATING PARTNERSHIP, L.P.
CONSOLIDATED STATEMENT OF PARTNERS' EQUITY
(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, beginning of period	176,873,324	$ 1,791,591	$ 4,725	$ 2,192	**$ 1,798,508**
Cumulative effect of accounting change		(5,336)			**(5,336)**
Net income		4,549		34	**4,583**
Other comprehensive loss			(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				22	**22**
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 ($0.19 per unit)		(33,560)			**(33,560)**
BALANCE, March 31, 2019	**176,001,580**	**$ 1,740,552**	**$ 2,242**	**$ 2,248**	**$ 1,745,042**

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 Months Ended March 31,	
	2020	**2019**
Cash flows from operating activities:		
Net income	$ 8,087	$ 4,583
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	52,038	51,444
Amortization of deferred financing costs	749	666
Amortization of debt discount/(premium), net	(395)	175
Amortization of stock compensation costs	2,349	3,449
Straight-line rent income	(2,183)	(4,165)
Amortization of acquired above (below) market leases, net	(1,495)	(1,805)
Ground rent expense	366	370
Provision for doubtful accounts	213	—
Net gain on sale of interests in real estate	(2,586)	(1,001)
Loss from Real Estate Ventures, net of distributions	1,890	1,159
Income tax provision	4	29
Changes in assets and liabilities:		
Accounts receivable	(1,348)	(3,539)
Other assets	(14,548)	(39,088)
Accounts payable and accrued expenses	(1,213)	(10,822)
Deferred income, gains and rent	(230)	(3,148)
Other liabilities	3,360	19,459
Net cash provided by operating activities	45,058	17,766
Cash flows from investing activities:		
Acquisition of properties	(11,432)	—
Proceeds from the sale of properties	17,711	5,273
Proceeds from real estate venture sales	—	259
Proceeds from repayment of mortgage notes receivable	—	15
Capital expenditures for tenant improvements	(13,707)	(14,978)
Capital expenditures for redevelopments	(9,973)	(10,777)
Capital expenditures for developments	(19,426)	(18,645)
Advances for the purchase of tenant assets, net of repayments	585	(1,615)
Investment in unconsolidated Real Estate Ventures	—	(182)
Deposits for real estate	(1,011)	3,152
Capital distributions from Real Estate Ventures	—	1,851
Leasing costs paid	(5,315)	(5,696)
Net cash used in investing activities	(42,568)	(41,343)
Cash flows from financing activities:		
Repayments of mortgage notes payable	(1,945)	(1,871)
Proceeds from credit facility borrowings	66,000	198,000
Repayments of credit facility borrowings	(16,000)	(130,000)
Proceeds from the exercise of stock options	47	800
Shares used for employee taxes upon vesting of share awards	(722)	(1,230)
Partner contributions to consolidated real estate venture	—	23
Repurchase and retirement of common shares	(53,857)	(17,282)
Distributions paid to preferred and common partnership units	(33,809)	(33,271)
Net cash provided by (used in) financing activities	(40,286)	15,169
Decrease in cash and cash equivalents and restricted cash	(37,796)	(8,408)
Cash and cash equivalents and restricted cash at beginning of year	91,170	23,211
Cash and cash equivalents and restricted cash at end of period	$ 53,374	$ 14,803

Reconciliation of cash and cash equivalents and restricted cash:				
Cash and cash equivalents, beginning of period	$	90,499	$	22,842
Restricted cash, beginning of period		671		369
Cash and cash equivalents and restricted cash, beginning of period	$	91,170	$	23,211
Cash and cash equivalents, end of period	$	52,702	$	14,449
Restricted cash, end of period		672		354
Cash and cash equivalents and restricted cash, end of period	$	53,374	$	14,803
Supplemental disclosure:				
Cash paid for interest, net of capitalized interest during the three months ended March 31, 2020 and 2019 of $1,201 and $728, respectively	$	12,961	$	14,251
Cash paid for income taxes		1		—
Supplemental disclosure of non-cash activity:				
Dividends and distributions declared but not paid		32,692		34,107
Change in capital expenditures financed through accounts payable at period end		2,745		(1,080)
Change in capital expenditures financed through retention payable at period end		23		(4,503)

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

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION OF THE PARENT COMPANY AND THE OPERATING PARTNERSHIP

Brandywine Realty Trust (the "Parent Company") is a self-administered and self-managed real estate investment trust ("REIT") engaged in the acquisition, development, redevelopment, ownership, management, and operation of a portfolio of office and mixed-use properties. The Parent Company owns its assets and conducts its operations through Brandywine Operating Partnership, L.P. (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, 2020, 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". The Parent Company, the Operating Partnership, and their consolidated subsidiaries are collectively referred to as the "Company".

As of March 31, 2020, the Company owned 94 properties that contained an aggregate of approximately 16.6 million net rentable square feet (collectively, the "Properties"). The Company's core portfolio of operating properties excludes development properties, redevelopment properties, and properties held for sale (the "Core Properties"). The Properties were comprised of the following as of March 31, 2020:

	Number of Properties	Rentable Square Feet
Office properties	85	15,319,340
Mixed-use properties	4	659,625
Core Properties	89	15,978,965
Development property	1	204,108
Redevelopment properties	4	397,237
The Properties	94	16,580,310

In addition to the Properties, as of March 31, 2020, the Company owned 242.5 acres of land held for development, of which 49.2 acres were held for sale. The Company also held leasehold interests in two land parcels totaling 1.8 acres, 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, 2020, the total potential development that this inventory of land could support under current zoning and entitlements, including the parcels under option, amounted to an estimated 14.4 million square feet, of which 0.3 million square feet relates to 49.2 acres held for sale. As of March 31, 2020, the Company also owned economic interests in seven 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, 2020, the management company subsidiaries were managing properties containing an aggregate of approximately 24.1 million net rentable square feet, of which approximately 16.6 million net rentable square feet related to Properties owned by the Company and approximately 7.5 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, 2020, the results of its operations for the three months ended March 31, 2020 and 2019 and its cash flows for the three months ended March 31, 2020 and 2019. 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 2019 Annual Report on Form 10-K filed with the SEC on March 2, 2020.

The Company's Annual Report on Form 10-K for the year ended December 31, 2019 contains a discussion of our significant accounting policies under Note 2, "Summary of Significant Accounting Policies". There have been no significant changes in our significant accounting policies since December 31, 2019.

Adoption of New Accounting Guidance

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments Credit Losses (Topic 326), which 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. In November 2018, the FASB released ASU 2018-19, Codification Improvements to Topic 326, Financial Instrument - Credit Losses, which clarifies that receivables arising from operating leases are not within the scope of Subtopic 326-20. The guidance was effective for the Company as of January 1, 2020. The Company adopted ASU 2016-13 effective January 1, 2020 and it did not have a material impact on the consolidated financial statements.

3. REAL ESTATE INVESTMENTS

As of March 31, 2020 and December 31, 2019, the gross carrying value of the operating properties was as follows (in thousands):

	March 31, 2020	December 31, 2019
Land	$ 485,420	$ 489,702
Building and improvements	3,044,461	3,049,395
Tenant improvements	474,237	467,362
Total	$ 4,004,118	$ 4,006,459

Acquisitions

The following table summarizes the property acquisitions during the three months ended March 31, 2020 (dollars in thousands):

Property/Portfolio Name	Acquisition Date	Location	Property Type	Rentable Square Feet/Acres	Purchase Price
145 King of Prussia Road	February 27, 2020	Radnor, PA	Land	7.75 acres	$ 11,250

Dispositions

The following table summarizes the property dispositions during the three months ended March 31, 2020 (dollars in thousands):

Property/Portfolio Name	Disposition Date	Location	Property Type	Rentable Square Feet/Acres	Sales Price	Gain/(Loss) on Sale (a)
52 East Swedesford Road	March 19, 2020	Malvern, PA	Office	131,077	$ 18,000	$ 2,336

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

Held for Sale

As of March 31, 2020, the Company determined that the sale of one parcel of land within the Pennsylvania Suburbs segment and two parcels of land within the Other segment totaling 49.2 acres was probable and classified these properties as held for sale. As such, $10.7 million was classified as "Assets held for sale, net" on the consolidated balance sheets. As of March 31, 2020, the fair value less the anticipated costs of sale of the properties exceeded the carrying values. The fair value of the properties is based on the pricing in the purchase and sale agreement.

As of December 31, 2019, the Company determined that the sale of two parcels of land within the Other segment totaling 35.2 acres was probable and classified these properties as held for sale. As such, $7.3 million was classified as “Assets held for sale, net” on the consolidated balance sheets.

4. INVESTMENT IN UNCONSOLIDATED REAL ESTATE VENTURES

As of March 31, 2020, the Company held ownership interests in seven unconsolidated real estate ventures for an aggregate investment balance of $118.4 million, which includes a negative investment balance in one unconsolidated real estate venture, reflected within 'Other liabilities' in the consolidated balance sheets. As of March 31, 2020, three of the real estate ventures owned properties that contained an aggregate of approximately 5.4 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 contained 321 apartment units.

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

The Company earned management fees from its Real Estate Ventures of $1.1 million for each of the three months ended March 31, 2020 and 2019.

The Company earned leasing commission income from its Real Estate Ventures of $0.4 million and $0.2 million for the three months ended March 31, 2020 and 2019, respectively.

The Company had outstanding accounts receivable balances from its Real Estate Ventures of $0.9 million and $0.8 million as of March 31, 2020 and December 31, 2019, respectively.

The amounts reflected in the following tables (except for the Company's share of equity in income) are based on the financial information of the individual Real Estate Ventures.

The following is a summary of the financial position of the Real Estate Ventures in which the Company held interests as of March 31, 2020 and December 31, 2019 (in thousands):

	March 31, 2020		
	MAP Venture	Other	Total
Net property	$ 189,953	$ 650,323	$ 840,276
Other assets	256,904	87,201	344,105
Other liabilities	266,798	21,188	287,986
Debt, net	181,768	419,352	601,120
Equity (a)	(1,709)	296,984	295,275

	December 31, 2019		
	MAP Venture	Other	Total
Net property	$ 192,582	$ 641,785	$ 834,367
Other assets	256,453	85,549	342,002
Other liabilities	266,200	23,871	290,071
Debt, net	181,525	403,543	585,068
Equity (a)	1,310	299,920	301,230

(a) This amount does not include 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, 2020 and 2019 (in thousands):

	Three Months Ended March 31, 2020		
	MAP Venture	Other	Total
Revenue	$ 17,313	$ 13,838	$ 31,151
Operating expenses	(12,228)	(5,733)	(17,961)
Interest expense, net	(2,047)	(2,942)	(4,989)
Depreciation and amortization	(6,058)	(6,465)	(12,523)
Net loss	$ (3,020)	$ (1,302)	$ (4,322)
Ownership interest %	50%	Various	Various
Company's share of net loss	$ (1,510)	$ (352)	$ (1,862)
Basis adjustments and other	(10)	(19)	(29)
Equity in loss of Real Estate Ventures	$ (1,520)	$ (371)	$ (1,891)

	Three Months Ended March 31, 2019		
	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%	Various	Various
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)

5. LEASES

Lessor Accounting

The table below sets forth the allocation of lease revenue between fixed contractual payments and variable lease payments for the three months ended March 31, 2020 and 2019 (in thousands):

	Three Months Ended March 31,	Three Months Ended March 31,
Lease Revenue	2020	2019
Fixed contractual payments	$ 104,401	$ 104,649
Variable lease payments	30,639	28,731
Total	$ 135,040	$ 133,380

6. INTANGIBLE ASSETS AND LIABILITIES

As of March 31, 2020 and December 31, 2019, the Company’s intangible assets/liabilities were comprised of the following (in thousands):

	March 31, 2020		
	Total Cost	Accumulated Amortization	Intangible Assets, net
Intangible assets, net:			
In-place lease value	$ 153,328	$ (79,024)	$ 74,304
Tenant relationship value	5,142	(4,775)	367
Above market leases acquired	4,866	(3,867)	999
Total intangible assets, net	$ 163,336	$ (87,666)	$ 75,670

	Total Cost	Accumulated Amortization	Intangible Liabilities, net
Intangible liabilities, net:			
Below market leases acquired	$ 43,302	$ (22,697)	$ 20,605

	December 31, 2019		
	Total Cost	Accumulated Amortization	Intangible Assets, net
Intangible assets, net:			
In-place lease value	$ 167,357	$ (84,123)	$ 83,234
Tenant relationship value	5,268	(4,815)	453
Above market leases acquired	4,956	(3,792)	1,164
Total intangible assets, net	$ 177,581	$ (92,730)	$ 84,851

	Total Cost	Accumulated Amortization	Intangible Liabilities, net
Intangible liabilities, net:			
Below market leases acquired	$ 44,757	$ (22,494)	$ 22,263

As of March 31, 2020, the Company's annual amortization for its intangible assets/liabilities, assuming no prospective early lease terminations, was as follows (dollars in thousands):

	Assets	Liabilities
2020 (nine months remaining)	$ 18,801	$ 3,665
2021	17,854	3,838
2022	12,043	2,257
2023	9,213	1,716
2024	6,294	1,428
Thereafter	11,465	7,701
Total	$ 75,670	$ 20,605

7. DEBT OBLIGATIONS

The following table sets forth information regarding the Company's consolidated debt obligations outstanding at March 31, 2020 and December 31, 2019 (in thousands):

	March 31, 2020	December 31, 2019	Effective Interest Rate	Maturity Date
MORTGAGE DEBT:				
Two Logan Square	$ 80,667	$ 81,103	3.98%	August 2020
Four Tower Bridge	9,230	9,291	4.50%	February 2021
One Commerce Square	115,647	116,571	3.64%	April 2023
Two Commerce Square	107,948	108,472	4.51%	April 2023
Principal balance outstanding	313,492	315,437		
Plus: fair market value premium (discount), net	(1,289)	(1,383)		
Less: deferred financing costs	(202)	(242)		
Mortgage indebtedness	$ 312,001	$ 313,812		
UNSECURED DEBT				
$600 million Unsecured Credit Facility	$ 50,000	$ —	LIBOR + 1.10%	July 2022
Seven-Year Term Loan - Swapped to fixed	250,000	250,000	2.87%	October 2022
$350.0M 3.95% Guaranteed Notes due 2023	350,000	350,000	3.87%	February 2023
$350.0M 4.10% Guaranteed Notes due 2024	350,000	350,000	3.78%	October 2024
$450.0M 3.95% Guaranteed Notes due 2027	450,000	450,000	4.03%	November 2027
$350.0M 4.55% Guaranteed Notes due 2029	350,000	350,000	4.30%	October 2029
Indenture IA (Preferred Trust I)	27,062	27,062	LIBOR + 1.25%	March 2035
Indenture IB (Preferred Trust I) - Swapped to fixed	25,774	25,774	3.30%	April 2035
Indenture II (Preferred Trust II)	25,774	25,774	LIBOR + 1.25%	July 2035
Principal balance outstanding	1,878,610	1,828,610		
Plus: original issue premium (discount), net	11,601	12,090		
Less: deferred financing costs	(9,612)	(10,094)		
Total unsecured indebtedness	$ 1,880,599	$ 1,830,606		
Total Debt Obligations	$ 2,192,600	$ 2,144,418		

In addition to the debt described above, the Company utilizes borrowings under its unsecured revolving credit facility (the "Unsecured Credit Facility") for general business purposes, including to fund costs of acquisitions, developments and redevelopments of properties, fund share repurchases and repay other debt. The Unsecured 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, 2020, the weighted-average interest rate on Unsecured Credit Facility borrowings was 2.1% resulting in a nominal amount of interest expense. As of March 31, 2020, the effective interest rate on Credit Facility borrowings was 2.1%.

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, 2020. Certain of the covenants restrict the Company's ability to obtain alternative sources of capital.

As of March 31, 2020, the Company’s aggregate scheduled principal payments of debt obligations are as follows (in thousands):

2020 (nine months remaining)	$ 85,281
2021	15,143
2022	306,332
2023	556,736
2024	350,000
Thereafter	878,610
Total principal payments	2,192,102
Net unamortized premiums/(discounts)	10,312
Net deferred financing costs	(9,814)
Outstanding indebtedness	$ 2,192,600

8. 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, 2020 and December 31, 2019, 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, 2020 and December 31, 2019 approximate the fair values for cash and cash equivalents, accounts receivable, other assets and liabilities, accounts payable and accrued expenses because they are short-term in duration. The following are financial instruments for which the Company’s estimates of fair value differ from the carrying amounts (in thousands):

	March 31, 2020		December 31, 2019	
	Carrying Amount (a)	Fair Value	Carrying Amount (a)	Fair Value
Unsecured notes payable	$ 1,503,297	$ 1,511,215	$ 1,503,435	$ 1,591,830
Variable rate debt	$ 377,302	$ 359,532	$ 327,171	$ 309,947
Mortgage notes payable	$ 312,001	$ 331,341	$ 313,812	$ 317,031
Notes receivable	$ 44,430	$ 46,640	$ 44,430	$ 43,322

(a) Net of deferred financing costs of $8.3 million and $8.7 million for unsecured notes payable, $1.3 million and $1.4 million for variable rate debt and $0.2 million for mortgage notes payable as of both March 31, 2020 and December 31, 2019.

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 related party note receivable of $44.4 million within 'Other assets' on the consolidated balance sheets. Refer to Note 4, "Investment in Unconsolidated Real Estate Ventures" to the consolidated financial statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019 for further detail regarding this financing.

The Company used quoted market prices as of March 31, 2020 and December 31, 2019 to value the unsecured notes payable and, as such, categorized them as Level 2.

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 determined using a discounted cash flow model that considered borrowing rates available to the Company for loans with similar terms and characteristics. The fair value of the mortgage notes payable was determined using a discounted cash flow model that considered the contractual interest and principal payments discounted at 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.

The inputs utilized to determine fair value of the Company's notes receivable are unobservable and, as such, were categorized as Level 3. Fair value was determined using a discounted cash flow model that considered the contractual interest and principal payments discounted at a blended interest rate of the notes receivable.

For the Company’s level 3 financial instruments for which fair value is disclosed, an increase in the discount rate used to determine fair value would result in a decrease to the fair value. Conversely, a decrease in the discount rate would result in an increase to the fair value.

Disclosure about the fair value of financial instruments is based upon pertinent information available to management as of March 31, 2020 and December 31, 2019. Although management is not aware of any factors that would significantly affect the fair value amounts, such amounts were not comprehensively revalued for purposes of these financial statements since March 31, 2020. Current estimates of fair value may differ from the amounts presented herein.

9. DERIVATIVE FINANCIAL INSTRUMENTS

The following table summarizes the terms and fair values of the Company’s derivative financial instruments as of March 31, 2020 and December 31, 2019. 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).

Hedge Product	Hedge Type	Designation		Notional Amount		Strike	Trade Date	Maturity Date	Fair value	
				3/31/2020	12/31/2019				3/31/2020	12/31/2019
Liabilities										
Swap	Interest Rate	Cash Flow	(a)	$ 250,000	$ 250,000	2.868%	October 8, 2015	October 8, 2022	$ (8,423)	$ (562)
Swap	Interest Rate	Cash Flow	(a)	$ 25,774	$ 25,774	3.300%	December 22, 2011	January 30, 2021	(293)	(94)
				$ 275,774	$ 275,774					

(a) Hedging unsecured variable rate debt.

The Company measures its derivative instruments at fair value and records them in “Other assets” and (“Other liabilities”) 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, 2020 and December 31, 2019. 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, 2020. Current estimates of fair value may differ from the amounts presented herein.

10. LIMITED PARTNERS' NONCONTROLLING 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 $9.2 million and $9.3 million as of March 31, 2020 and December 31, 2019, 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 date) was approximately $10.3 million and $15.5 million as of March 31, 2020 and December 31, 2019, respectively.

11. BENEFICIARIES' EQUITY OF THE PARENT COMPANY

Earnings per Share (EPS)

The following table details 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 Months Ended March 31,			
	2020		2019	
	Basic	Diluted	Basic	Diluted
Numerator				
Net income	$ 8,087	$ 8,087	$ 4,583	$ 4,583
Net income attributable to noncontrolling interests	(65)	(65)	(60)	(60)
Nonforfeitable dividends allocated to unvested restricted shareholders	(131)	(131)	(119)	(119)
Net income attributable to common shareholders	$ 7,891	$ 7,891	$ 4,404	$ 4,404
Denominator				
Weighted-average shares outstanding	176,069,968	176,069,968	175,857,358	175,857,358
Contingent securities/Share based compensation	—	583,491	—	606,860
Weighted-average shares outstanding	176,069,968	176,653,459	175,857,358	176,464,218
Earnings per Common Share:				
Net income attributable to common shareholders	$ 0.04	$ 0.04	$ 0.03	$ 0.02

Redeemable common limited partnership units totaling 981,634 at March 31, 2020 and 982,871 at March 31, 2019, 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 months ended March 31, 2020 and 2019, 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 27, 2020 the Parent Company declared a distribution of $0.19 per common share, totaling $32.7 million, which was paid on April 21, 2020 to shareholders of record as of April 7, 2020.

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, 2020, the Company repurchased and retired 5,644,200 common shares at an average price of $9.54 per share, totaling $53.9 million. 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.

12. PARTNERS' EQUITY OF THE PARENT COMPANY

Earnings per Common Partnership Unit

The following table details 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 Months Ended March 31,			
	2020		2019	
	Basic	Diluted	Basic	Diluted
Numerator				
Net income	$ 8,087	$ 8,087	$ 4,583	$ 4,583
Net income attributable to noncontrolling interests	(12)	(12)	(34)	(34)
Nonforfeitable dividends allocated to unvested restricted unitholders	(131)	(131)	(119)	(119)
Net income attributable to common unitholders	$ 7,944	$ 7,944	$ 4,430	$ 4,430
Denominator				
Weighted-average units outstanding	177,051,602	177,051,602	176,840,229	176,840,229
Contingent securities/Share based compensation	—	583,491	—	606,860
Total weighted-average units outstanding	177,051,602	177,635,093	176,840,229	177,447,089
Earnings per Common Partnership Unit:				
Net income attributable to common unitholders	0.04	0.04	0.03	0.02

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 months ended March 31, 2020 and 2019, earnings representing nonforfeitable dividends were allocated to the unvested restricted units issued 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 27, 2020 the Operating Partnership declared a distribution of $0.19 per common partnership unit, totaling $32.7 million, which was paid on April 21, 2020 to unitholders of record as of April 7, 2020.

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, 2020, the Company retired 5,644,200 common partnership units at an average price of $9.54 per unit, totaling $53.9 million, in connection with an equal number of common share repurchases. During the three months ended March 31, 2019, the Company retired 1,337,169 common partnership units at an average price of $12.92 per unit, totaling $17.3 million, in connection with an equal number of share repurchases.

13. SHARE BASED COMPENSATION

Restricted Share Rights Awards

As of March 31, 2020, 689,184 restricted share rights ("Restricted Share Rights") were outstanding under the Company's long term equity incentive plan. These Restricted Share Rights vest over one to three years from the initial grant dates. The remaining compensation expense to be recognized with respect to these awards at March 31, 2020 was $3.5 million and is expected to be recognized over a weighted average remaining vesting period of 1.40 years. During the three months ended March 31, 2020 and 2019, the amortization related to outstanding Restricted Share Rights was $1.9 million (of which $0.3 million was capitalized) and $1.6 million (of which $0.2 million was capitalized), respectively. Compensation expense related to outstanding Restricted Share Rights is included in general and administrative expense.

The following table summarizes the Company’s Restricted Share Rights activity during the three months ended March 31, 2020:

	Shares	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (in thousands)
Non-vested at January 1, 2020	479,144	$ 15.90	$ 44.7
Granted	224,678	$ 14.66	$ —
Vested	(12,718)	$ 15.60	$ —
Forfeited	(1,920)	$ 15.63	$ —
Non-vested at March 31, 2020	689,184	$ 15.50	$ —

On March 5, 2020, the Compensation Committee of the Parent Company’s Board of Trustees awarded to officers of the Company an aggregate of 183,758 Restricted Share Rights, which vest over 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 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 2020 to certain senior executives 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 investment activity provided certain operating and balance sheet metrics are also achieved during the three-year period ending December 31, 2022. Half of any additional shares earned will vest based on continued service through each of January 1, 2023 and January 1, 2024, respectively, 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 316,306 shares may be awarded under the outperformance feature. As of March 31, 2020, the Company has not recognized any compensation expense for the outperformance feature of 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 the outperformance feature of these awards should it be determined that achievement of these metrics is probable.

In addition, on March 5, 2020, the Compensation Committee awarded non-officer employees an aggregate of 40,920 Restricted Share Rights that generally vest in three equal installments on April 15, 2021, 2022, and 2023. Vesting of these awards is subject to acceleration upon death, disability or termination without cause within one year following a change of control.

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 Company's total shareholder return over specified measurement periods compared to total shareholder returns of comparative groups over the measurement periods. The table below presents certain information as to unvested RPSU awards.

	RPSU Grant			
	2/28/2018	2/21/2019	3/5/2020	Total
(Amounts below in shares, unless otherwise noted)				
Non-vested at January 1, 2020	190,296	206,069	—	396,365
Units Granted	—	—	319,600	319,600
Non-vested at March 31, 2020	190,296	206,069	319,600	715,965
Measurement Period Commencement Date	1/1/2018	1/1/2019	1/1/2020	
Measurement Period End Date	12/31/2020	12/31/2021	12/31/2022	
Units Granted	209,193	213,728	319,600	
Fair Value of Units on Grant Date (in thousands)	$ 4,276	$ 4,627	$ 5,389	

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 determination and 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; provided that, in the case of qualifying retirement for the March 5, 2020 grant, the number of shares deliverable will be pro-rated based on the portion of the performance period actually worked before retirement. In accordance with the February 2019 and 2018 grants, the Company amortizes stock-based compensation costs through the qualifying retirement date for those executives who meet the conditions for qualifying retirement during the scheduled vesting period.

For the three months ended March 31, 2020, the Company recognized amortization of the 2020, 2019 and 2018 RPSU awards of $0.6 million, of which $0.1 million was capitalized consistent with the Company's policies for capitalizing eligible portions of employee compensation. For the three months ended March 31, 2019, amortization for the 2019, 2018 and 2017 RPSU awards was $2.7 million, of which $0.4 million was capitalized consistent with the Company's policies for capitalizing eligible portions of employee compensation.

The remaining compensation expense to be recognized with respect to the non-vested RPSU's at March 31, 2020 was approximately $6.9 million and is expected to be recognized over a weighted average remaining vesting period of 2.37 years.

The Company issued 121,897 common shares on February 1, 2020 in settlement of RPSUs that had been awarded on March 1, 2017 (with a three-year measurement period ended December 31, 2019). Holders of these RPSUs also received a cash dividend of $0.19 per share for these common shares on January 22, 2020.

14. SEGMENT INFORMATION

As of March 31, 2020, 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, New Jersey and New Castle County, 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, 2020	December 31, 2019
Philadelphia CBD	$ 1,733,987	$ 1,726,299
Pennsylvania Suburbs	991,788	1,003,890
Austin, Texas	722,873	721,255
Metropolitan Washington, D.C.	468,416	468,035
Other	87,054	86,980
Operating Properties	$ 4,004,118	$ 4,006,459
Right of use asset - operating leases, net	$ 21,485	$ 21,656
Corporate		
Construction-in-progress	$ 193,160	$ 180,718
Land held for development (a)	$ 108,213	$ 96,124
Prepaid leasehold interests in land held for development, net (b)	$ 39,490	$ 39,592

(a) Does not include 49.2 acres and 35.2 acres of land classified as held for sale as of March 31, 2020 and December 31, 2019, respectively.

(b) Includes leasehold interests in prepaid 99-year ground leases at 3025 and 3001-3003 JFK Boulevard, in Philadelphia, Pennsylvania as of March 31, 2020 and December 31, 2019.

Net operating income:

	Three Months Ended March 31,					
	2020			2019		
	Total revenue	Operating expenses (a)	Net operating income (loss)	Total revenue	Operating expenses (a)	Net operating income (loss)
Philadelphia CBD	$ 65,915	$ (24,198)	$ 41,717	$ 65,798	$ (25,185)	$ 40,613
Pennsylvania Suburbs	37,237	(12,678)	24,559	35,627	(12,991)	22,636
Austin, Texas	26,581	(10,145)	16,436	24,766	(9,076)	15,690
Metropolitan Washington, D.C.	10,754	(5,512)	5,242	13,520	(6,204)	7,316
Other	3,652	(2,693)	959	3,182	(2,145)	1,037
Corporate	949	(1,684)	(735)	1,003	(1,799)	(796)
Operating properties	$ 145,088	$ (56,910)	$ 88,178	$ 143,896	$ (57,400)	$ 86,496

(a) Includes property operating expenses, real estate taxes and third party management expense.

Unconsolidated real estate ventures:

	Investment in real estate ventures		Equity in income (loss) of real estate venture	
	As of		Three Months Ended March 31,	
	March 31, 2020	December 31, 2019	2020	2019
Philadelphia CBD	$ 17,602	$ 17,524	$ 78	$ 78
Metropolitan Washington, D.C.	102,396	102,840	(449)	(175)
MAP Venture (a)	(1,590)	(70)	(1,520)	(1,367)
Other	—	—	—	106
Total	$ 118,408	$ 120,294	$ (1,891)	$ (1,358)

(a) Included in Other liabilities on the consolidated balance sheets.

Net operating income ("NOI") is a non-GAAP financial measure, which we define 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. NOI presented by the Company may not be comparable to NOI reported by other companies that define NOI differently. 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 Months Ended March 31, 2020	2019
Net income	$ 8,087	$ 4,583
Plus:		
Interest expense	20,009	20,357
Interest expense - amortization of deferred financing costs	749	666
Depreciation and amortization	52,038	51,444
General and administrative expenses	8,561	9,844
Equity in loss of Real Estate Ventures	1,891	1,358
Less:		
Interest income	575	525
Income tax provision	(4)	(29)
Net gain on disposition of real estate	2,586	—
Net gain on sale of undepreciated real estate	—	1,001
Net gain on real estate venture transactions	—	259
Consolidated net operating income	$ 88,178	$ 86,496

15. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company is involved from time to time in litigation on various matters, including disputes with tenants, vendors and disputes arising out of agreements to purchase or sell properties. Given the nature of the Company's business activities, these lawsuits are considered routine to the conduct of its business. The result of any particular lawsuit cannot be predicted, because of the very nature of litigation, the litigation process and its adversarial nature, and the jury system. The Company will establish reserves for specific legal proceedings when it determines that the likelihood of an unfavorable outcome is probable and when the amount of loss is reasonably estimable. The Company does not expect that the liabilities, if any, that may ultimately result from such legal actions will have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company.

Letters-of-Credit

Under certain mortgages, the Company has funded required leasing and capital reserve accounts for the benefit of the mortgage lenders with letters-of-credit. There were no letters-of-credit for a mortgage lender as of March 31, 2020. Certain of the tenant rents at properties that secure these mortgage loans are deposited into the loan servicer's depository accounts, which are used to fund debt service, operating expenses, capital expenditures and the escrow and reserve accounts, as necessary. Any excess cash is included in cash and cash equivalents.

Environmental

As an owner of real estate, the Company is subject to various environmental laws of federal, state, and local governments. The Company's compliance with existing laws has not had a material adverse effect on its financial condition and results of operations, and the Company does not believe it will have a material adverse effect in the future. However, the Company cannot predict the impact of unforeseen environmental contingencies or new or changed laws or regulations on its current Properties or on properties that the Company may acquire.

Debt Guarantees

As of March 31, 2020, the Company's Real Estate Ventures had aggregate indebtedness of $611.6 million. These loans are generally mortgage or construction loans, most of which are nonrecourse to the Company, except for customary recourse carve-outs. As of March 31, 2020, the $150.0 million construction loan obtained by 4040 Wilson, located in Arlington, Virginia, for which the Company has a payment guarantee up to $41.3 million, is recourse to the Company. In addition, during construction undertaken by the 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.

Other Commitments or Contingencies

In connection with the Schuylkill Yards Project, the Company entered into a neighborhood engagement program and, as of March 31, 2020, had $8.4 million of future fixed contractual obligations. The Company is also committed to make additional contributions under the program. As of March 31, 2020, the Company estimates that these additional contributions, which are not fixed under the terms of agreement, will be $2.7 million.

As of March 31, 2020, the Company was under contract to acquire an office property containing approximately 170,000 rentable square feet located in Radnor, Pennsylvania for a purchase price of $20.3 million. The Company has paid $1.0 million towards the purchase price in the form of a non-refundable deposit and the transaction is expected to close during 2020.

The Company invests in its properties and regularly incurs capital expenditures in the ordinary course of business to maintain the properties. The Company believes that such expenditures enhance its competitiveness. The Company also enters into construction, utility and service contracts in the ordinary course of business which may extend beyond one year. These contracts typically provide for cancellation with insignificant or no cancellation penalties.

16. SUBSEQUENT EVENTS

On April 2, 2020, we settled the purchase of 604,283 common shares, which had a trade date of March 31, 2020, for an aggregate of $6.1 million.

The recent outbreak of COVID-19 across many countries around the globe, including the U.S., has significantly slowed global economic activity, caused significant volatility in financial markets, and resulted in unprecedented job losses causing many to fear an imminent global recession. The global impact of the outbreak has been rapidly evolving the responses of many countries, including the U.S., have included quarantines, restrictions on business activities, including construction activities, restrictions on group gatherings, and restrictions on travel. These actions are creating disruption in the global economy and supply chains and adversely impacting many industries, including owners and developers of office and mixed-use buildings. Moreover, there is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. economy and consumer confidence. Demand for space at our properties is dependent on a variety of macroeconomic factors, such as employment levels, interest rates, changes in stock market valuations, rent levels and availability of competing space. These factors can be significantly adversely affected by a variety of factors beyond our control. The extent to which COVID-19 impacts our results will depend on future developments, many of which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and the actions taken to contain it or treat its impact. If the outbreak continues, there will likely be continued negative economic impacts, market volatility, and business disruption which could negatively impact our tenants' ability to pay rent, our ability to lease vacant space, and our ability to complete development and redevelopment projects, and these consequences, in turn, could materially impact our results of operations.

On April 10, 2020, the Financial Accounting Standards Board (the "FASB") issued a Staff Q&A to respond to some frequently asked questions about accounting for lease concessions related to the effects of the COVID-19 pandemic. Consequently, for concessions related to the effects of the COVID-19 pandemic, an entity will not have to analyze each contract to determine whether enforceable rights and obligations for concessions exist in the contract and can elect to apply or not apply the lease modification guidance to those contracts. Entities may make the elections for any lessor-provided concessions related to the effects of the COVID-19 pandemic (e.g., deferrals of lease payments, cash payments made to the lessee, reduced future lease payments) as long as the concession does not result in a substantial increase in the rights of the lessor or the obligations of the lessee. The Company is currently working with tenants impacted by the COVID-19 pandemic to determine appropriate lease concessions. To date, the impact of lease concessions granted has not had a material effect on the financial statements. The Company will continue to evaluate the impact of lease concessions and the appropriate accounting for those concessions.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The Private Securities Litigation Reform Act of 1995 (the "1995 Act") provides a "safe harbor" for forward-looking statements. This Quarterly Report on Form 10-Q and other materials filed by us with 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 are set forth under the heading "Forward-Looking Statements" in our Annual Report on Form 10-K for the year ended December 31, 2019, many of which may be more likely to impact us as a result of the ongoing coronavirus (COVID-19) outbreak.

Given these uncertainties, and the other risks identified in the "*Risk Factors* " section of our Annual Report on Form 10-K for the year ended December 31, 2019 and in Part II, Item 1A of this Quarterly Report, we caution readers not to place undue reliance on forward-looking statements. We assume no obligation to update or supplement forward-looking statements that become untrue because of subsequent events.

The discussion that follows is based primarily on our consolidated financial statements as of March 31, 2020 and December 31, 2019 and for the three months ended March 31, 2020 and 2019 and should be read along with the consolidated financial statements and related notes appearing elsewhere in this report. The ability to compare one period to another may be significantly affected by acquisitions completed, development properties placed in service and dispositions made during those periods.

OVERVIEW

During the three months ended March 31, 2020, we owned and managed properties within five markets: (1) Philadelphia Central Business District ("Philadelphia CBD"), (2) Pennsylvania Suburbs, (3) Austin, Texas, (4) Metropolitan Washington, D.C., and (5) Other. The Philadelphia CBD segment includes properties located in the City of Philadelphia in Pennsylvania. The Pennsylvania Suburbs segment includes properties in Chester, Delaware and Montgomery counties in the Philadelphia suburbs. The Austin, Texas segment includes properties in the City of Austin, Texas. The Metropolitan Washington, D.C. segment includes properties in Northern Virginia, Washington, D.C. and Southern Maryland. The Other segment includes properties in Camden County, New Jersey and New Castle County, Delaware. In addition to the five markets, our corporate group is responsible for cash and investment management, development of certain real estate properties during the construction period, and certain other general support functions.

We generate cash and revenue from leases of space at our Properties and, to a lesser extent, from the management and development of properties owned by third parties and from investments in the Real Estate Ventures. Factors that we evaluate when leasing space include rental rates, costs of tenant improvements, tenant creditworthiness, current and expected operating costs, the length of the lease term, vacancy levels and demand for space. We also generate cash through sales of assets, including assets that we do not view as core to our business plan, either because of location or expected growth potential, and assets that are commanding premium prices from third party investors.

Our financial and operating performance is dependent upon the demand for office, residential and retail space in our markets, our leasing results, our acquisition, disposition and development activity, our financing activity, our cash requirements and economic and market conditions, including prevailing interest rates.

Adverse changes in economic conditions could result in a reduction of the availability of financing and potentially in higher borrowing costs. Vacancy rates may increase, and rental rates and rent collection rates may decline, during the remainder of 2020 and possibly beyond as the current economic climate may negatively impact tenants.

Overall economic conditions, including but not limited to higher unemployment and deteriorating financial and credit markets, could have a dampening effect on the fundamentals of our business, including increases in past due accounts, tenant defaults, lower occupancy and reduced effective rents. These adverse conditions would negatively affect our future net income and cash flows and could have a material adverse effect on our financial condition. We believe that the quality of our assets and the strength of our balance sheet will enable us to raise debt capital, if necessary, in various forms and from different sources, including through secured or unsecured loans from banks, pension funds and life insurance companies. However, there can be no assurance that we will be able to borrow funds on terms that are economically attractive or at all.

We continue to seek revenue growth throughout our portfolio by increasing occupancy and rental rates. Occupancy at our Core Properties at March 31, 2020 was 93.3% compared to 92.1% at March 31, 2019.

The table below summarizes selected operating and leasing statistics of our wholly owned properties for the three months ended March 31, 2020 and 2019:

	Three Months Ended March 31,	
	2020	2019
Leasing Activity		
Core Properties (1):		
Total net rentable square feet owned	15,978,965	16,379,261
Occupancy percentage (end of period)	93.3%	92.1%
Average occupancy percentage	93.0%	91.8%
Total Portfolio, less properties in development (2):		
Tenant retention rate (3)	75.6%	66.2%
New leases and expansions commenced (square feet)	224,417	404,925
Leases renewed (square feet)	87,449	412,123
Net absorption (square feet)	62,507	(65,796)
Percentage change in rental rates per square feet (4):		
New and expansion rental rates	21.1%	13.6%
Renewal rental rates	8.6%	14.9%
Combined rental rates	15.7%	14.6%
Capital Costs Committed (5):		
Leasing commissions (per square feet)	$ 6.28	$ 7.87
Tenant Improvements (per square feet)	$ 18.02	$ 22.33
Weighted average lease term (years)	6.7	7.7
Total capital per square foot per lease year	$ 3.96	$ 4.81

(1) Does not include properties under development, redevelopment, held for sale, or sold.
(2) Includes leasing related to completed developments and redevelopments, as well as sold properties.
(3) Calculated as percentage of total square feet.
(4) Includes base rent plus reimbursement for operating expenses and real estate taxes.
(5) Calculated on a weighted average basis.

In seeking to increase revenue through our operating, financing and investment activities, we also seek to minimize operating risks, including (i) tenant rollover risk, (ii) tenant credit risk and (iii) development risk.

Tenant Rollover Risk

We are subject to the risk that tenant leases, upon expiration, will not be renewed, that space may not be relet, or that the terms of renewal or reletting (including the cost of renovations) may be less favorable to us than the current lease terms. Leases that accounted for approximately 5.5% of our aggregate final annualized base rents as of March 31, 2020 (representing approximately 5.7% of the net rentable square feet of the properties) are scheduled to expire without penalty in 2020. We maintain an active dialogue with our tenants in an effort to maximize lease renewals. If we are unable to renew leases or relet space under expiring leases, at anticipated rental rates, or if tenants terminate their leases early, our cash flow would be adversely impacted.

Tenant Credit Risk

In the event of a tenant default, we may experience delays in enforcing our rights as a landlord and may incur substantial costs in protecting our investment. Our management evaluates our accounts receivable reserve policy in light of our tenant base and general and local economic conditions. Our accounts receivable allowance was $7.8 million or 3.9% of total receivables (including accrued rent receivable) as of March 31, 2020 compared to $8.0 million or 4.0% of total receivables (including accrued rent receivable) as of December 31, 2019.

If economic conditions deteriorate, including as a result of the recent COVID-19 outbreak, we may experience increases in past due accounts, defaults, lower occupancy and reduced effective rents. This condition would negatively affect our future net income and cash flows and could have a material adverse effect on our financial condition.

Development Risk

Development projects are subject to a variety of risks, including construction delays, construction cost overruns, building moratoriums, inability to obtain financing on favorable terms, inability to lease space at projected rates, inability to enter into construction, development and other agreements on favorable terms, and unexpected environmental and other hazards.

As of March 31, 2020 the following development and redevelopment projects remain under construction in progress and we were proceeding on the following activity (dollars, in thousands):

Property/Portfolio Name	Location	Expected Completion	Activity Type	Approximate Square Footage	Estimated Costs	Amount Funded
The Bulletin Building (a)	Philadelphia, PA	Q3 2020	Redevelopment	283,000	$ 84,800	$ 67,300
405 Colorado Street (b)	Austin, TX	Q1 2021	Development	204,000	116,000	38,800
426 W. Lancaster Avenue (c)	Devon, PA	Q1 2019	Redevelopment	56,000	14,900	13,100
3000 Market Street (d)	Philadelphia, PA	Q1 2021	Redevelopment	64,000	38,000	13,000

(a) Estimated costs include $37.8 million of building basis, representing the acquisition cost.
(b) Estimated costs include $2.1 million of existing property basis through a ground lease. Project includes 520 parking spaces.
(c) The property was vacated during the third quarter of 2017. Total project costs include $4.9 million of existing property basis. The renovation of the base building was substantially completed during the first quarter of 2019 and remaining costs as of March 31, 2020 primarily represent tenant improvements.
(d) Estimated costs include $12.8 million of existing property basis.

In addition to the properties listed above, we have classified one parking facility in Philadelphia, Pennsylvania as redevelopment. As of March 31, 2020, there has been no material construction spend on this project.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations discuss our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of these financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Certain accounting policies are considered to be critical accounting policies, as they require management to make assumptions about matters that are highly uncertain at the time the estimate is made and changes in accounting estimate are reasonably likely to occur from period to period. Management bases its estimates and assumptions on historical experience and current economic conditions.

Our Annual Report on Form 10-K for the year ended December 31, 2019 contains a discussion of our critical accounting policies. There have been no significant changes in our critical accounting policies since December 31, 2019.

RESULTS OF OPERATIONS

The following discussion is based on our consolidated financial statements for the three months ended March 31, 2020 and 2019. We believe that presentation of our consolidated financial information, without a breakdown by segment, will effectively present important information useful to our investors.

Net operating income ("NOI") as presented in the comparative analysis below is 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. NOI is a non-GAAP financial measure that we use internally to evaluate the operating performance of our real estate assets by segment, as presented in Note 14, "Segment Information," to our consolidated financial statements, and of our business as a whole. We believe NOI provides useful information to investors regarding our financial condition and results of operations because it reflects only those income and expense items that are incurred at the property level. While NOI is a relevant and widely used measure of operating performance of real estate investment trusts, it does not represent cash flow from operations or net income as defined by GAAP and should not be considered as an alternative to those measures in evaluating our liquidity or operating performance. NOI does not reflect interest expenses, real estate impairment losses, depreciation and amortization costs, capital expenditures and leasing costs. We believe that net income, as defined by GAAP, is the most appropriate earnings measure. See Note 14, "Segment Information" to our Consolidated Financial Statements for a reconciliation of NOI to our consolidated net income as defined by GAAP.

Comparison of the Three Months Ended March 31, 2020 and March 31, 2019

The following comparison for the three months ended March 31, 2020 to the three months ended March 31, 2019, makes reference to the effect of the following:

(a) “Same Store Property Portfolio,” which represents 88 properties containing an aggregate of approximately 15.8 million net rentable square feet, and represents properties that we owned for the three-month periods ended March 31, 2020 and 2019. The Same Store Property Portfolio includes properties acquired or placed in service on or prior to January 1, 2019 and owned through March 31, 2020,

(b) “Total Portfolio,” which represents all properties owned by us during the three months ended March 31, 2020 and 2019,

(c) "Recently Completed/Acquired Properties," which represents 1 property placed into service or acquired on or subsequent to January 1, 2019,

(d) "Development/Redevelopment Properties," which represents 5 properties currently in development/redevelopment. A property is excluded from our Same Store Property Portfolio and moved into Development/Redevelopment in the period that we determine to proceed with development/redevelopment for a future development strategy, and

(e) "Q1 2019 through Q1 2020 Dispositions," which represents 2 properties disposed of from the three months ended March 31, 2019 through the three months ended March 31, 2020.

Comparison of three months ended March 31, 2020 to the three months ended March 31, 2019

	Same Store Property Portfolio				Recently Completed/Acquired Properties		Development/Redevelopment Properties		Other (Eliminations) (a)		Total Portfolio			
(dollars and square feet in millions except per share amounts)	2020	2019	$ Change	% Change	2020	2019	2020	2019	2020	2019	2020	2019	$ Change	% Change
Revenue:														
Rents	$132.8	$129.6	$ 3.2	2.5 %	$ 1.8	$ 1.0	$ 1.5	$ 2.7	$ 3.1	$ 4.8	$139.2	$138.1	$ 1.1	0.8 %
Third party management fees, labor reimbursement and leasing	—	—	—	— %	—	—	—	—	5.0	4.0	5.0	4.0	1.0	25.0 %
Other	0.3	0.4	(0.1)	(25.0)%	—	—	—	—	0.6	1.4	0.9	1.8	(0.9)	(50.0)%
Total revenue	133.1	130.0	3.1	2.4 %	1.8	1.0	1.5	2.7	8.7	10.2	145.1	143.9	1.2	0.8 %
Property operating expenses	35.4	36.2	(0.8)	(2.1)%	0.3	—	0.6	1.1	1.1	2.2	37.4	39.5	(2.1)	(5.2)%
Real estate taxes	15.5	14.8	0.7	4.7 %	0.4	0.2	0.4	0.3	0.5	0.4	16.8	15.7	1.1	7.0 %
Third party management expenses	—	—	—	— %	—	—	—	—	2.7	2.1	2.7	2.1	0.6	28.6 %
Net operating income	82.2	79.0	3.2	4.0 %	1.1	0.8	0.5	1.3	4.4	5.5	88.2	86.6	1.6	1.8 %
Depreciation and amortization	48.2	46.3	1.9	4.1 %	0.5	0.2	1.0	1.4	2.3	3.6	52.0	51.5	0.5	1.0 %
General & administrative expenses	—	—	—	— %	—	—	—	—	8.6	9.8	8.6	9.8	(1.2)	(12.2)%
Net gain on disposition of real estate											(2.6)	—	(2.6)	— %
Net gain on sale of undepreciated real estate											—	(1.0)	1.0	(100.0)%
Operating income (loss)	$ 34.0	$ 32.7	$ 1.3	3.9 %	$ 0.6	$ 0.6	$ (0.5)	$ (0.1)	$(6.5)	$(7.9)	$ 30.2	$ 26.3	$ 3.9	14.6 %
Number of properties	88	88			1		5				94			
Square feet	15.8	15.8			0.2		0.6				16.6			
Core Occupancy % (b)	93.3%	92.2%			100.0%									
Other Income (Expense):														
Interest income											0.6	0.5	0.1	20.0 %
Interest expense											(20.0)	(20.4)	0.4	(2.0)%
Interest expense — Deferred financing costs											(0.7)	(0.7)	—	— %
Equity in loss of Real Estate Ventures											(1.9)	(1.4)	(0.5)	35.7 %
Net gain on real estate venture transactions											—	0.3	(0.3)	(100.0)%
Net income											$ 8.2	$ 4.6	$ 3.6	77.2 %
Net income attributable to Common Shareholders of Brandywine Realty Trust											$ 0.04	$ 0.02	$ 0.02	100.0 %

(a) Represents certain revenues and expenses at the corporate level as well as various intercompany costs that are eliminated in consolidation, third-party management fees, provisions for impairment, and changes in the accrued rent receivable allowance. Other/(Eliminations) also includes properties sold and properties classified as held for sale.

(b) Pertains to Core Properties.

Total Revenue

Rents from the Total Portfolio increased by $1.1 million during the first quarter of 2020 compared to the first quarter of 2019. The increase in Rents is primarily driven by a $3.2 million increase across the Same Store Portfolio due to increased occupancy at several properties within the Philadelphia CBD Segment and a $1.3 million increase in termination fee income, as well as a $0.8 million increase related to leasing activity at the Recently Completion/Acquired Properties. These increases are partially offset by a decrease of $1.6 million related to the Q1 2019 through Q1 2020 Dispositions and a decrease of $1.2 million related to redevelopments included in Development/Redevelopment Properties.

Third party management fees, labor reimbursement, and leasing income increased by $1.0 million during the first quarter of 2020 compared to the first quarter of 2019 primarily due to an increase general contractor management services provided to MAP Venture.

Property Operating Expenses

Property operating expenses across our Total Portfolio decreased $2.1 million for the three months ended March 31, 2020 compared to the three months ended March 31, 2019, of which $0.8 million relates to decreases across our Same Store Property Portfolio, $0.5 million relates to decreases due to vacancies at our Development/Redevelopment Properties in advance of beginning redevelopment activities, and $0.4 million relates to the Q1 2019 through Q1 2020 Dispositions.

Real Estate Taxes

Real estate taxes increased $1.1 million for the first quarter of 2020 compared to the first quarter of 2019, of which $0.7 million related to our Same Store Property Portfolio and $0.2 million relates to our Recently Completed/Acquired Properties.

Depreciation and Amortization

Depreciation and amortization expense increased by $0.5 million for the first quarter of 2020 compared to the first quarter of 2019, of which $1.9 million relates to the Same Store Property Portfolio, primarily due to the write off of assets for a terminated tenant in the Philadelphia CBD Segment and $0.3 million relates to our Recently Completed/Acquired Properties. This increase was offset by a decrease of $0.8 million related to 650 Park Avenue, which was demolished in July 2019, $0.6 million related to the Q1 2019 through Q1 2020 Dispositions and $0.4 million related to the Development/Redevelopment Properties.

General and Administrative

The $1.2 million decrease for the first quarter of 2020 compared to the first quarter of 2019 is primarily related to a $1.8 million decrease in compensation related expenses, which is driven by changes to the vesting period of retirement eligible officers for the 2020 Restricted Performance Share Unit awards compared to the 2019 Restricted Performance Share Unit awards. This was partially offset by a $0.3 million increase due to an increase in capitalized general and administrative costs.

Net Gain on Disposition of Real Estate

The gain of $2.6 million recognized during the three months ended March 31, 2020 is primarily related to the disposition of 52 East Swedesford Road, an office property in our Pennsylvania Suburbs Segment.

Net Gain on Sale of Undepreciated Real Estate

The gain of $1.0 million recognized during the first quarter of 2019 was primarily related to the a $0.8 million gain from the disposition of 9 Presidential Boulevard.

Net Income

Net income increased by $3.6 million for the first quarter of 2020 compared to the first quarter of 2019 as a result of the factors described above.

Net Income per Common Share – fully diluted

Net income per share was $0.04 for the first quarter of 2020 as compared to net income per share of $0.02 for the first quarter of 2019 as a result of the factors described above.

LIQUIDITY AND CAPITAL RESOURCES

General

Our principal liquidity funding needs for the next twelve months are as follows:

- normal recurring expenses;
- capital expenditures, including capital and tenant improvements and leasing costs;
- debt service and principal repayment obligations;
- current development and redevelopment costs;
- commitments to unconsolidated real estate ventures;
- distributions to shareholders to maintain our Parent Company’s REIT status;
- possible acquisitions of properties, either directly or indirectly through the acquisition of equity interest therein; and
- possible common share repurchases.

We expect to satisfy these needs using one or more of the following:

- cash flows from operations;

- distributions of cash from our unconsolidated real estate ventures;
- cash and cash equivalent balances;
- availability under our unsecured Credit Facility;
- secured construction loans and long-term unsecured indebtedness;
- issuances of Parent Company equity securities and/or units of the Operating Partnership; and
- sales of real estate.

As of March 31, 2020, the Parent Company owned a 99.4% interest in the Operating Partnership. The remaining interest of approximately 0.6% pertains to common limited partnership interests owned by non-affiliated investors who contributed property to the Operating Partnership in exchange for their interests. As the sole general partner of the Operating Partnership, the Parent Company has full and complete responsibility for the Operating Partnership's day-to-day operations and management. The Parent Company's source of funding for its dividend payments and other obligations is the distributions it receives from the Operating Partnership.

As summarized above, we believe that our liquidity needs will be satisfied through available cash balances and cash flows from operations, financing activities and real estate sales. Rental revenue and other income from operations are our principal sources of cash to pay operating expenses, debt service, recurring capital expenditures and the minimum distributions required to maintain our REIT qualification. We seek to increase cash flows from our properties by maintaining quality standards for our properties that promote high occupancy rates and permit increases in rental rates while reducing tenant turnover and controlling operating expenses. Our revenue also includes third-party fees generated by our property management, leasing, development and construction businesses. We believe that our revenue, together with proceeds from property sales and debt financings, will continue to provide funds for our short-term liquidity needs. However, material changes in our operating or financing activities may adversely affect our net cash flows. With uncertain economic conditions, vacancy rates may increase, effective rental rates on new and renewed leases may decrease and tenant installation costs, including concessions, may increase in most or all of our markets during 2020 and possibly beyond. As a result, our revenues and cash flows could be insufficient to cover operating expenses, including increased tenant installation costs, pay debt service or make distributions to shareholders over the short-term. If this situation were to occur, we expect that we would finance cash deficits through borrowings under our unsecured revolving credit facility and other sources of debt and equity financings. In addition, a material adverse change in cash provided by operations could adversely affect our compliance with financial performance covenants under our unsecured revolving credit facility, including unsecured term loans and unsecured notes. As of March 31, 2020 we were in compliance with all of our debt covenants and requirement obligations.

In addition, we are continuing to monitor the outbreak of the novel coronavirus ("COVID-19") and the related economic impacts, market volatility, and business disruption, and its impact on our tenants. The severity and duration of the pandemic and its impact on our operations and liquidity is uncertain as this continues to evolve globally. However, if the outbreak continues, there will likely be continued negative economic impacts, market volatility, and business disruption which could negatively impact our tenants' ability to pay rent, our ability to lease vacant space, and our ability to complete development and redevelopment projects, and these consequences, in turn, could materially impact our results of operations. Approximately 96% of April total cash-based rent has been received from our tenants which reflects a 97% collection rate from our office tenants. We have received rent relief requests primarily from our co-working and retail tenants, who represent approximately 2.1% and 1.6% of April billings, respectively. The relief requests have substantially all been in the form of rent deferral for varying lengths of time and we are currently assessing the merits of each request. For those tenants we believe require rent relief, we expect to grant deferrals and, in some instances, seek extended lease terms through favorable lease extensions. We can give no assurances on the outcomes of these ongoing negotiations, the amount and nature of the rent relief packages and ultimate recovery of the amounts deferred.

We use multiple financing sources to fund our long-term capital needs. When needed, we use borrowings under our unsecured revolving credit facility for general business purposes, including to meet debt maturities and to fund distributions to shareholders as well as development and acquisition costs and other expenses. In light of the volatility in financial markets and economic uncertainties, it is possible, that one or more lenders under our unsecured revolving credit facility could fail to fund a borrowing request. Such an event could adversely affect our ability to access funds under our unsecured credit facility when needed to fund distributions or pay expenses.

Our ability to incur additional debt is dependent upon a number of factors, including our credit ratings, the value of our unencumbered assets, our degree of leverage and borrowing restrictions imposed by our lenders. If one or more rating agencies were to downgrade our unsecured credit rating, our access to the unsecured debt market would be more limited and the interest rate under our unsecured credit facility and unsecured term loans would increase.

The Parent Company unconditionally guarantees the Operating Partnership's secured and unsecured obligations, which, as of March 31, 2020, amounted to $313.5 million and $1,878.6 million, respectively.

Capital Markets

The Parent Company issues equity from time to time, the proceeds of which it contributes to the Operating Partnership in exchange for additional interests in the Operating Partnership, and guarantees debt obligations of the Operating Partnership. The Parent Company's ability to sell common shares and preferred shares is dependent on, among other things, general market conditions for REITs, market perceptions about the Company as a whole and the current trading price of the Parent Company's shares. The Parent Company generally maintains a shelf registration statement that covers the offering and sale of common shares, preferred shares, depositary shares, warrants and unsecured debt securities. Subject to our ongoing compliance with securities laws, and if warranted by market conditions, we may offer and sell equity and debt securities from time to time under the shelf registration statement or in transactions exempt from registration.

See Note 11, "Beneficiaries' Equity of the Parent Company" to our Consolidated Financial Statements for further information related to our share repurchase program during the three months ended March 31, 2020. We expect to fund any additional share repurchases with a combination of available cash balances and availability under our unsecured revolving credit facility. The timing and amounts of any repurchases will depend on a variety of factors, including market conditions, regulatory requirements, share prices, capital availability and other factors as determined by our management team. The repurchase program does not require the purchase of any minimum number of shares and may be suspended or discontinued at any time without notice.

Capital Recycling

The Operating Partnership also considers net sales of selected properties and recapitalization of unconsolidated real estate ventures as additional sources of managing its liquidity. During the three months ended March 31, 2020, we sold one office property for net cash proceeds of $17.5 million.

We expect that our primary uses of capital during the remainder of 2020 will be to fund our current development and redevelopment projects and also to repay $80.5 million in principal due upon maturity of the mortgage note for Two Logan Square, in Philadelphia, Pennsylvania, in August 2020, if not refinanced or extended. As of March 31, 2020, we had $52.7 million of cash and cash equivalents and $548.3 million of available borrowings under our Credit Facility, net of $1.7 million in letters of credit outstanding. Based on the foregoing, as well as cash flows from operations net of dividend requirements, we believe we have sufficient capital to fund our remaining capital requirements on existing development and redevelopment projects and pursue additional attractive investment opportunities.

Cash Flows

The following discussion of our cash flows is based on the consolidated statement of cash flows and is not meant to be a comprehensive discussion of the changes in our cash flows for the periods presented.

As of March 31, 2020 and December 31, 2019, we maintained cash and cash equivalents and restricted cash of $53.4 million and $91.2 million, respectively. We report and analyze our cash flows based on operating activities, investing activities, and financing activities. The following table summarizes changes in our cash flows (in thousands):

	Three Months Ended March 31,		
Activity	2020	2019	(Decrease) Increase
Operating	$ 45,058	$ 17,766	$ 27,292
Investing	(42,568)	(41,343)	(1,225)
Financing	(40,286)	15,169	(55,455)
Net cash flows	$ (37,796)	$ (8,408)	$ (29,388)

Our principal source of cash flows is from the operation of our Properties. Our Properties provide a relatively consistent stream of cash flows that provides us with the resources to fund operating expenses, debt service and quarterly dividends.

Cash is used in investing activities to fund acquisitions, development, or redevelopment projects and recurring and nonrecurring capital expenditures. We selectively invest in new projects that enable us to take advantage of our development, leasing, financing, and property management skills and invest in existing buildings that meet our investment criteria. During the three months ended March 31, 2020, when compared to the three months ended March 31, 2019, the change in investing cash flows was due to the following activities (in thousands):

Acquisitions of real estate	$	(11,432)
Capital expenditures and capitalized interest		1,294
Capital improvements/acquisition deposits/leasing costs		(1,582)
Joint venture investments		(77)
Distributions from joint ventures		(1,851)
Proceeds from the sale of properties		12,438
Proceeds from notes receivable		(15)
Increase in net cash used in investing activities	$	(1,225)

We generally fund our investment activity through the sale of real estate, property-level financing, credit facilities, senior unsecured notes, convertible or exchangeable securities, and construction loans. From time to time, we may issue common or preferred shares of beneficial interest, or the Operating Partnership may issue common or preferred units of limited partnership interest. During the three months ended March 31, 2020, when compared to the three months ended March 31, 2019, the change in financing cash flows was due to the following activities (in thousands):

Proceeds from debt obligations	$	(132,000)
Repayments of debt obligations		113,926
Proceeds from the exercise of stock options		(753)
Repurchase and retirement of common shares		(36,575)
Other financing activities		485
Dividends and distributions paid		(538)
Increase in net cash used in financing activities	$	(55,455)

Off-Balance Sheet Arrangements

As of March 31, 2020, we did not have any off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Capitalization

Indebtedness

The table below summarizes indebtedness under our mortgage notes payable and our unsecured debt at March 31, 2020 and December 31, 2019:

	March 31, 2020	December 31, 2019
	(dollars in thousands)	
Balance: (a)		
Fixed rate	$ 2,089,266	$ 2,091,211
Variable rate - unhedged	102,836	52,836
Total	$ 2,192,102	$ 2,144,047
Percent of Total Debt:		
Fixed rate	95.3%	97.5%
Variable rate - unhedged	4.7%	2.5%
Total	100.0%	100.0%
Weighted-average interest rate at period end:		
Fixed rate	3.9%	3.9%
Variable rate - unhedged	2.6%	3.2%
Total	3.8%	3.8%
Weighted-average maturity in years:		
Fixed rate	5.3	5.6
Variable rate - unhedged	9.0	15.6
Total	5.5	5.9

(a) Consists of unpaid principal and does not reflect premium/discount or deferred financing costs.

Scheduled principal payments and related weighted average annual effective interest rates for our debt as of March 31, 2020 were as follows (in thousands):

Period	Scheduled amortization	Principal maturities	Total	Weighted Average Interest Rate of Maturing Debt
2020 (nine months remaining)	$ 4,760	$ 80,521	$ 85,281	3.98%
2021	6,142	9,001	15,143	4.28%
2022	6,332	300,000	306,332	2.76%
2023	1,620	555,116	556,736	3.94%
2024	—	350,000	350,000	3.78%
2025	—	—	—	—%
2026	—	—	—	—%
2027	—	450,000	450,000	4.03%
2028	—	—	—	—%
2029	—	350,000	350,000	4.30%
Thereafter	—	78,610	78,610	3.18%
Totals	$ 18,854	$ 2,173,248	$ 2,192,102	3.80%

The indenture under which the Operating Partnership issued its unsecured notes contains financial covenants, including: (i) a leverage ratio not to exceed 60%; (ii) a secured debt leverage ratio not to exceed 40%; (iii) a debt service coverage ratio of greater than 1.5 to 1.0; and (iv) an unencumbered asset value of not less than 150% of unsecured debt. The Operating Partnership is in compliance with all covenants as of March 31, 2020.

The Operating Partnership has mortgage loans that are collateralized by certain of its Properties. Payments on mortgage loans are generally due in monthly installments of principal and interest, or interest only. The Operating Partnership intends to refinance or repay its indebtedness as it matures, subject to tax guarantees, through the use of proceeds from selective property sales and secured or unsecured borrowings. However, in the current and expected future economic environment one or more of these sources may not be available on attractive terms or at all.

Equity

In order to maintain its qualification as a REIT, the Parent Company is required to, among other things, pay dividends to its shareholders of at least 90% of its REIT taxable income. See Note 11, "Beneficiaries' Equity of the Parent Company," to our Consolidated Financial Statements for further information related to our dividends declared for the first quarter of 2020.

Contractual Obligations

Refer to our 2019 Annual Report on Form 10-K for a discussion of our contractual obligations. There have been no material changes, outside the ordinary course of business, to these contractual obligations during the three months ended March 31, 2020.

Funds from Operations (FFO)

Pursuant to the revised definition of FFO adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"), we calculate FFO by adjusting net income/(loss) attributable to common unit holders (computed in accordance with GAAP) for gains (or losses) from sales of properties, impairment losses on depreciable consolidated real estate, impairment losses on investments in unconsolidated real estate ventures driven by a measurable decrease in the fair value of depreciable real estate held by the unconsolidated Real Estate Ventures, real estate related depreciation and amortization, and after similar adjustments for unconsolidated Real Estate Ventures. FFO is a non-GAAP financial measure. We believe that the use of FFO combined with the required GAAP presentations, has been beneficial in improving the understanding of operating results of REITs among the investing public and making comparisons of REITs' operating results more meaningful. We consider FFO to be a useful measure for reviewing comparative operating and financial performance because, by excluding gains or losses related to sales of previously depreciated operating real estate assets and real estate depreciation and amortization, FFO can help the investing public compare the operating performance of a company's real estate between periods or as compared to other companies. Our computation of FFO may not be comparable to FFO reported by other REITs or real estate companies that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently.

We consider net income, as defined by GAAP, to be the most comparable earnings measure to FFO. While FFO and FFO per unit are relevant and widely used measures of operating performance of REITs, FFO does not represent cash flow from operations or net income as defined by GAAP and should not be considered as alternatives to those measures in evaluating our liquidity or operating performance. We believe that to further understand our performance, FFO should be compared with our reported net income/ (loss) attributable to common unit holders and considered in addition to cash flows in accordance with GAAP, as presented in our consolidated financial statements.

The following table presents a reconciliation of net income attributable to common unit holders to FFO for the three months ended March 31, 2020 and 2019:

	Three Months Ended March 31,	
	2020	2019
	(amounts in thousands, except share information)	
Net income attributable to common unitholders	**$ 7,944**	**$ 4,430**
Add (deduct):		
Amount allocated to unvested restricted unitholders	131	119
Net gain on real estate venture transactions	—	(259)
Net gain on disposition of real estate	(2,586)	—
Depreciation and amortization:		
Real property	38,353	35,606
Leasing costs including acquired intangibles	13,199	15,406
Company's share of unconsolidated real estate ventures	4,599	5,041
Partners' share of consolidated real estate ventures	(60)	(53)
Funds from operations	**$ 61,580**	**$ 60,290**
Funds from operations allocable to unvested restricted shareholders	(190)	(214)
Funds from operations available to common share and unit holders (FFO)	**$ 61,390**	**$ 60,076**
Weighted-average shares/units outstanding — basic (a)	**177,051,602**	**176,840,229**
Weighted-average shares/units outstanding — fully diluted (a)	**177,635,093**	**177,447,089**

(a) Includes common share and partnership units outstanding through the three months ended March 31, 2020 and 2019, respectively.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the exposure to loss resulting from changes in interest rates, commodity prices and equity prices. In pursuing our business plan, the primary market risk to which we are exposed is interest rate risk. Changes in the general level of interest rates prevailing in the financial markets may affect the spread between our yield on invested assets and cost of funds and, in turn, our ability to make distributions or payments to our shareholders. While we have not experienced any significant credit losses, in the event of a significant rising interest rate environment and/or continued economic slowdown, defaults could increase and result in losses to us which would adversely affect our operating results and liquidity.

Interest Rate Risk and Sensitivity Analysis

The analysis below presents the sensitivity of the market value of the Operating Partnership's financial instruments to selected changes in market rates. The range of changes chosen reflects its view of changes which are reasonably possible over a one-year period. Market values are the present value of projected future cash flows based on the market rates chosen.

Our financial instruments consist of both fixed and variable rate debt. As of March 31, 2020, our consolidated debt consisted of mortgage loans with an outstanding principal balance of $313.5 million and unsecured notes with an outstanding principal balance of $1,500.0 million, all of which are fixed rate borrowings. We also have variable rate debt consisting of trust preferred securities with an outstanding principal balance of $78.6 million, a $600.0 million Credit Facility with an outstanding balance of $50.0 million and an unsecured term loan with an outstanding principal balance of $250.0 million, all of which have been swapped to fixed rates, except for two trust preferred securities with an outstanding principal balance of $52.8 million and our unsecured credit facility. All financial instruments were entered into for other than trading purposes and the net market value of these financial instruments is referred to as the net financial position. Changes in interest rates have different impacts on the fixed and variable rate portions of our debt portfolio. A change in interest rates on the fixed portion of the debt portfolio impacts the net financial instrument position, but has no impact on interest incurred or cash flows. A change in interest rates on the variable portion of the debt portfolio impacts the interest incurred and cash flows, but does not impact the net financial instrument position.

If market rates of interest increase by 100 basis points, the fair value of our outstanding fixed-rate mortgage debt would decrease by approximately $7.0 million. If market rates of interest decrease by 100 basis points, the fair value of our outstanding fixed-rate mortgage debt would increase by approximately $7.2 million.

As of March 31, 2020, based on prevailing interest rates and credit spreads, the fair value of our unsecured notes was $1,511.2 million. For sensitivity purposes, a 100-basis point change in the discount rate equates to a change in the total fair value of our unsecured notes of approximately $15.1 million at March 31, 2020.

From time to time or as the need arises, we use derivative instruments to manage interest rate risk exposures and not for speculative or trading purposes. The total outstanding principal balance of our variable rate debt was approximately $378.6 million and $328.6 million at March 31, 2020 and December 31, 2019, respectively. The total fair value of our debt was approximately$359.5 million and $309.9 million at March 31, 2020 and December 31, 2019, respectively. For sensitivity purposes, if market rates of interest increase by 100 basis points the fair value of our variable rate debt would decrease by approximately $14.0 million at March 31, 2020. If market rates of interest decrease by 100 basis points the fair value of our outstanding variable rate debt would increase by approximately $15.2 million.

These amounts were determined solely by considering the impact of hypothetical interest rates on our financial instruments. Due to the uncertainty of specific actions we may undertake to minimize possible effects of market interest rate increases, this analysis assumes no changes in our financial structure.

Item 4. Controls and Procedures

Controls and Procedures (Parent Company)

(a) *Evaluation of disclosure controls and procedures.* Under the supervision and with the participation of its management, including its principal executive officer and principal financial officer, the Parent Company conducted an evaluation of its disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this quarterly report. Based on this evaluation, the Parent Company's principal executive officer and principal financial officer have concluded that the Parent Company's disclosure controls and procedures are effective as of the end of the period covered by this quarterly report.

(b) *Changes in internal control over financial reporting.* There was no change in the Parent Company's internal control over financial reporting that occurred during the period covered by this quarterly report that has materially affected, or is reasonably likely to materially affect, the Parent Company's internal control over financial reporting.

Controls and Procedures (Operating Partnership)

(a) *Evaluation of disclosure controls and procedures.* Under the supervision and with the participation of its management, including its principal executive officer and principal financial officer, the Operating Partnership conducted an evaluation of its disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act as of the end of the period covered by this quarterly report. Based on this evaluation, the Operating Partnership's principal executive officer and principal financial officer have concluded that the Operating Partnership's disclosure controls and procedures are effective as of the end of the period covered by this quarterly report.

(b) *Changes in internal control over financial reporting.* There was no change in the Operating Partnership's internal control over financial reporting that occurred during the period covered by this quarterly report that has materially affected, or is reasonably likely to materially affect, the Operating Partnership's internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

The risks set out below represent changes to risk factors disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019. The information in this Quarterly Report on Form 10-Q should be read in conjunction with the other factors described in "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

The ongoing coronavirus (“COVID-19”) pandemic and measures intended to prevent its spread present material uncertainty and risk and could have a material adverse effect on our business, results of operations, cash flows and financial condition.

The recent outbreak of COVID-19 across many countries around the globe, including the U.S., has significantly slowed global economic activity, caused significant volatility in financial markets, and resulted in unprecedented job losses causing many to fear an imminent global recession. The global impact of the outbreak has been rapidly evolving and the responses of many countries, including the U.S., have included quarantines, restrictions on business activities, including construction activities, restrictions on group gatherings, and restrictions on travel. These actions are creating disruption in the global economy and supply chains and adversely impacting many industries, including owners and developers of office and mixed-use buildings. Moreover, there is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. economy and consumer confidence. Demand for space at our properties is dependent on a variety of macroeconomic factors, such as employment levels, interest rates, changes in stock market valuations, rent levels and availability of competing space. These factors can be significantly adversely affected by a variety of factors beyond our control. The extent to which COVID-19 impacts our results will depend on future developments, many of which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and the actions taken to contain it or treat its impact. The impact of COVID-19 could negatively impact our business in a number of ways, including: (i) deterioration in the financial condition of our tenants and in their ability to pay rents; (ii) reduction in demand for space in our portfolio; (iii) costs associated with construction delays and cost overruns at our development and redevelopment projects; (iv) reduction in availability of, and increased costs of, capital; and (v) failure of our contract counterparties, including partners in Real Estate Ventures, to meet their obligations. The ongoing situation presents material uncertainty and risk and could have a material adverse effect on our business, results of operations, cash flows and financial condition.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) None.

(b) Not applicable.

(c) Our Board of Trustees has authorized a share repurchase program under which we may repurchase up to $150.0 million of our outstanding common shares. We may repurchase shares from time to time on the open market or in privately negotiated transactions or otherwise, depending on market prices and other conditions. During the fiscal quarter ended March 31, 2020, we repurchased 5,644,200 common shares at an average price of $9.54 per share for a total of approximately $53.9 million. As of March 31, 2020, $89.0 million remained available for repurchases under our share repurchase program. For each common share repurchased, one of our units in the Operating Partnership was redeemed. Repurchases of common shares were financed with general corporate funds, including borrowings under our unsecured Credit Facility. On April 2, 2020, we settled the purchase of an additional 604,283 shares at an average price of $10.17 per share, which had a trade date of March 31, 2020, for an aggregate of $6.1 million.

A summary of our repurchases of common shares for the three month period ended March 31, 2020 is as follows:

Period	Total number of shares (or units) purchased		Average price paid per share (or unit)	Total number of shares (or units) purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs
January 1, 2020 - January 31, 2020					
Open Market Purchases	—	$	—	—	
February 1, 2020 - February 29, 2020					
Open Market Purchases	—		—	—	
March 1, 2020 - March 31, 2020					
Open Market Purchases	5,644,200		9.54	5,644,200	
Totals	5,644,200	$	9.54	5,644,200	$89.0 million

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Exhibit 99.1 (Material Federal Income Tax Considerations) filed with this Form 10-Q replaces Exhibit 99.1 (Material Federal Income Tax Considerations) to the Annual Report on Form 10-K for the fiscal year ended December 31, 2019 to reflect recent legislative changes under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which was signed into law on March 27, 2020.

Item 6. Exhibits

(a) Exhibits

Exhibits No.	Description
10.1	Form of 2020-2022 Performance Unit Award Agreement (previously filed as an exhibit to Brandywine Realty Trust's Form 8-K filed on March 11, 2020 and incorporated herein by reference)**
10.2	2020-2022 Performance Share Unit Program (previously filed as an exhibit to Brandywine Realty Trust's Form 8-K filed on March 11, 2020 and incorporated herein by reference)**
10.3	Form of Restricted Common Share Rights Award (with outperformance feature) (previously filed as an exhibit to Brandywine Realty Trust's Form 8-K filed on March 11, 2020 and incorporated herein by reference)**
31.1	Certification of the Chief Executive Officer of Brandywine Realty Trust pursuant to 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934 (filed herewith)
31.2	Certification of the Chief Financial Officer of Brandywine Realty Trust pursuant to 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934 (filed herewith)
31.3	Certification of the Chief Executive Officer of Brandywine Realty Trust, in its capacity as the general partner of Brandywine Operating Partnership, L.P., pursuant to 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934 (filed herewith)
31.4	Certification of the Chief Financial Officer of Brandywine Realty Trust, in its capacity as the general partner of Brandywine Operating Partnership, L.P., pursuant to 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934 (filed herewith)
32.1	Certification of the Chief Executive Officer of Brandywine Realty Trust pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
32.2	Certification of the Chief Financial Officer of Brandywine Realty Trust pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
32.3	Certification of the Chief Executive Officer of Brandywine Realty Trust, in its capacity as the general partner of Brandywine Operating Partnership, L.P., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
32.4	Certification of the Chief Financial Officer of Brandywine Realty Trust, in its capacity as the general partner of Brandywine Operating Partnership, L.P., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
99.1	Material Federal Income Tax Considerations (filed herewith)
101.1	The following materials from the Quarterly Reports on Form 10-Q of Brandywine Realty Trust and Brandywine Operating Partnership, L.P. for the quarter ended March 31, 2020 formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statement of Equity, (iv) the Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements, detailed tagged and filed herewith.
104	Cover Page Interactive Data File – the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

** Management contract or compensatory plan or arrangement.

Exhibits 32.1, 32.2, 32.3 and 32.4 are being furnished and shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act of 1934, as amended (the "Exchange Act") or otherwise subject to the liability of that section, nor shall any of such exhibits be deemed to be incorporated by reference in any filing of Brandywine Realty Trust or Brandywine Operating Partnership, L.P. under the Securities Act of 1933, as amended, or the Exchange Act, except as otherwise stated in such filing.

SIGNATURES OF REGISTRANT

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BRANDYWINE REALTY TRUST
(Registrant)

Date:	April 28, 2020	**By:**	/s/ Gerard H. Sweeney
			Gerard H. Sweeney, President and Chief Executive Officer
			(Principal Executive Officer)
Date:	April 28, 2020	**By:**	/s/ Thomas E. Wirth
			Thomas E. Wirth, Executive Vice President and Chief Financial Officer
			(Principal Financial Officer)
Date:	April 28, 2020	**By:**	/s/ Daniel Palazzo
			Daniel Palazzo, Vice President and Chief Accounting Officer
			(Principal Accounting Officer)

SIGNATURES OF REGISTRANT

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BRANDYWINE OPERATING PARTNERSHIP, L.P.
(Registrant)
BRANDYWINE REALTY TRUST,
as general partner

Date:	April 28, 2020	**By:**	/s/ Gerard H. Sweeney **Gerard H. Sweeney, President and Chief Executive Officer** **(Principal Executive Officer)**
Date:	April 28, 2020	**By:**	/s/ Thomas E. Wirth **Thomas E. Wirth, Executive Vice President and Chief Financial Officer** **(Principal Financial Officer)**
Date:	April 28, 2020	**By:**	/s/ Daniel Palazzo **Daniel Palazzo, Vice President and Chief Accounting Officer** **(Principal Accounting Officer)**

(Back To Top)

Section 2: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES
EXCHANGE ACT OF 1934, AS AMENDED

I, Gerard H. Sweeney, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Brandywine Realty Trust;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 28, 2020

/s/ Gerard H. Sweeney

Gerard H. Sweeney
President and Chief Executive Officer

(Back To Top)

Section 3: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES
EXCHANGE ACT OF 1934, AS AMENDED**

I, Thomas E. Wirth, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Brandywine Realty Trust;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 28, 2020	/s/ Thomas E. Wirth
	Thomas E. Wirth Executive Vice President and Chief Financial Officer

(Back To Top)

Section 4: EX-31.3 (EXHIBIT 31.3)

Exhibit 31.3

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES
EXCHANGE ACT OF 1934, AS AMENDED

I, Gerard H. Sweeney, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Brandywine Operating Partnership, L.P.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 28, 2020

/s/ Gerard H. Sweeney

Gerard H. Sweeney
President and Chief Executive Officer

(Back To Top)

Section 5: EX-31.4 (EXHIBIT 31.4)

Exhibit 31.4

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES
EXCHANGE ACT OF 1934, AS AMENDED

I, Thomas E. Wirth, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Brandywine Operating Partnership, L.P.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 28, 2020

/s/ Thomas E. Wirth

Thomas E. Wirth
Executive Vice President and Chief Financial Officer

(Back To Top)

Section 6: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

RULE 13(a)-14(b) CERTIFICATION
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002*

In connection with the Quarterly Report of Brandywine Realty Trust (the “Company”) on Form 10-Q for the quarter ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Gerard H. Sweeney, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Gerard H. Sweeney

Gerard H. Sweeney
President and Chief Executive Officer

Date: April 28, 2020

* A signed original of this written statement required by Section 906 has been provided to Brandywine Realty Trust and will be retained by Brandywine Realty Trust and furnished to the Securities and Exchange Commission or its staff upon request.

(Back To Top)

Section 7: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

RULE 13(a)-14(b) CERTIFICATION
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002*

In connection with the Quarterly Report of Brandywine Realty Trust (the “Company”) on Form 10-Q for the quarter ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Thomas E. Wirth, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Thomas E. Wirth

Thomas E. Wirth
Executive Vice President and Chief Financial Officer

Date: April 28, 2020

* A signed original of this written statement required by Section 906 has been provided to Brandywine Realty Trust and will be retained by Brandywine Realty Trust and furnished to the Securities and Exchange Commission or its staff upon request.

(Back To Top)

Section 8: EX-32.3 (EXHIBIT 32.3)

Exhibit 32.3

RULE 13(a)-14(b) CERTIFICATION
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002*

In connection with the Quarterly Report of Brandywine Operating Partnership, L.P. (the "Partnership") on Form 10-Q for the quarter ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gerard H. Sweeney, President and Chief Executive Officer of Brandywine Realty Trust, the Partnership's sole general partner, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Gerard H. Sweeney

Gerard H. Sweeney
President and Chief Executive Officer
Date: April 28, 2020

* A signed original of this written statement required by Section 906 has been provided to Brandywine Realty Trust and will be retained by Brandywine Realty Trust and furnished to the Securities and Exchange Commission or its staff upon request.

(Back To Top)

Section 9: EX-32.4 (EXHIBIT 32.4)

Exhibit 32.4

RULE 13(a)-14(b) CERTIFICATION
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002*

In connection with the Quarterly Report of Brandywine Operating Partnership, L.P. (the "Partnership") on Form 10-Q for the quarter ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas E. Wirth, Executive Vice President and Chief Financial Officer of Brandywine Realty Trust, the Partnership's sole general partner, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Thomas E. Wirth

Thomas E. Wirth
Executive Vice President and Chief Financial Officer
Date: April 28, 2020

* A signed original of this written statement required by Section 906 has been provided to Brandywine Realty Trust and will be retained by Brandywine Realty Trust and furnished to the Securities and Exchange Commission or its staff upon request.

(Back To Top)

Section 10: EX-99.1 (EXHIBIT 99.1)

Exhibit 99.1

MATERIAL FEDERAL INCOME TAX CONSIDERATIONS

The following discussion describes the material U.S. federal income tax considerations relating to the purchase, ownership and disposition of Brandywine Realty Trust's ("Brandywine") common shares, preferred shares and debt securities and debt securities of the Operating Partnership, and the qualification and taxation of Brandywine as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"). This discussion reflects changes to the U.S. federal income tax laws made by legislation commonly referred to as the Tax Cuts and Jobs Act (the "TCJA"), which was signed into law on December 22, 2017, and the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which was signed into law on March 27, 2020. The TCJA is a far-reaching and complex revision to the U.S. federal income tax laws with disparate and, in some cases, countervailing impacts on different categories of taxpayers and industries, and it is anticipated that it will require subsequent rulemaking and the finalization of proposed guidance in a number of areas.

Because this is a summary that is intended to address only material U.S. federal income tax considerations relating to the ownership and disposition of Brandywine's common shares, preferred shares or debt securities and debt securities of the Operating Partnership that will apply to all holders, this summary may not contain all the information that may be important to you. As you review this discussion, you should keep in mind that:

- the tax consequences to you may vary depending on your particular tax situation;
- special rules that are not discussed below may apply to you if, for example, you are a tax-exempt organization, a broker-dealer, a non-U.S. person, a trust, an estate, a regulated investment company, a REIT, a financial institution, an insurance company, a holder of debt securities or shares through a partnership or other pass-through entity, a person that holds debt securities or shares as part of a straddle, conversion or other integrated transaction, a person liable for the alternative minimum tax, a U.S. Shareholder or U.S. Holder (each as defined below) whose "functional currency" is not the U.S. dollar, an entity treated as a U.S. corporation by virtue of the inversion rules, or otherwise subject to special tax treatment under the Code;
- this summary does not address state, local or non-U.S. tax considerations;
- this summary deals only with our shareholders and debt holders that hold common shares, preferred shares or debt securities as "capital assets" within the meaning of Section 1221 of the Code;
- tax rules are subject to change, potentially with retroactive effect; and
- this discussion is not intended to be, and should not be construed as, tax advice.

You are urged both to review the following discussion and to consult with your own tax advisor to determine the effect of ownership and disposition of our common shares, preferred shares or debt securities and debt securities of the Operating Partnership on your individual tax situation, including any state, local or non-U.S. tax consequences.

The information in this summary is based on the Code, current, temporary and proposed Treasury regulations, the legislative history of the Code, current administrative interpretations and practices of the Internal Revenue Service (the "**IRS**"), including its practices and policies as endorsed in private letter rulings, which are not binding on the IRS, and existing court decisions. Future legislation, regulations, administrative interpretations and court decisions could change current law or adversely affect existing interpretations of current law. Any change could apply retroactively. We have not obtained any rulings from the IRS concerning the status of Brandywine as a REIT or of the Operating Partnership as a partnership. Therefore, it is possible that the IRS could challenge the statements in this summary, which do not bind the IRS or the courts, and that a court could agree with the IRS.

<u>Taxation of the Company</u>

Qualification of Brandywine as a REIT

Brandywine first elected to be taxed as a REIT for the taxable year ended December 31, 1986. A REIT generally is not subject to federal income tax on the income that it distributes to its shareholders if it meets the applicable REIT distribution requirements and other requirements for qualification.

We believe that we are organized and have operated in such a manner so as to qualify as a REIT, but there can be no assurance that we have qualified or will remain qualified as a REIT.

Qualification and taxation as a REIT depends on our ability to meet, on a continuing basis, through actual operating results, distribution levels, and diversity of stock ownership, various qualification requirements imposed upon REITs by the Code. Our ability to qualify as a REIT also requires that we satisfy certain asset tests, some of which depend upon the fair market values of assets directly or indirectly owned by us. Such values may not be susceptible to a precise determination. While we intend to continue to operate in a manner that will allow us to qualify as a REIT, no assurance can be given that the actual results of our operations for any taxable year will satisfy such requirements for qualification and taxation as a REIT.

Taxation of Brandywine as a REIT

If we qualify for taxation as a REIT, we generally will not be subject to federal corporate income taxes on that portion of our ordinary income or capital gain that we distribute currently to our shareholders, because the REIT provisions of the Code generally allow a REIT a deduction for distributions paid to its shareholders. This deduction substantially eliminates the “double taxation” on earnings (taxation at both the corporate level and shareholder level) that generally results from investment in a corporation. However, even if we qualify for taxation as a REIT, we will be subject to federal income tax as follows:

- We will be taxed at regular corporate rates on any undistributed REIT taxable income, including undistributed net capital gains;
- Under certain circumstances, for tax years beginning before January 1, 2018, we may be subject to the "alternative minimum tax" on our items of tax preference, if any;
- If we have net income from prohibited transactions (which are, in general, certain sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business) such income will be subject to a 100% tax (See "-Sale of Partnership Property)";
- If we elect to treat property that we acquire in connection with a foreclosure of a mortgage loan or leasehold as "foreclosure property," we may thereby avoid the 100% tax on gain from a resale of that property (if the sale would otherwise constitute a prohibited transaction), but the income from the sale or operation of the property (and any other non-qualifying income from foreclosure property) may be subject to corporate income tax at the highest applicable rate (35% for tax years beginning on or before December 31, 2017 and 21% for tax years beginning after that date);
- If we should fail to satisfy the 75% gross income test or the 95% gross income test (each as discussed below), and nonetheless have maintained our qualification as a REIT because certain other requirements have been met, we will be subject to a 100% tax on the net income attributable to the greater of the amount by which we fail the 75% or 95% test, multiplied by a fraction intended to reflect our profitability;
- If we fail to satisfy any of the REIT asset tests, as discussed below, by more than a *de minimis* amount, but our failure is due to reasonable cause and not due to willful negligence and we nonetheless maintain our REIT qualification because of specified cure provisions, we will be required to pay a tax equal to the greater of $50,000 or the highest applicable rate for corporate taxpayers (35% for tax years beginning on or before December 31, 2017 and 21% for tax years beginning after that date) of the net income generated by the non-qualifying assets during the period in which we failed to satisfy the asset tests;
- If we fail to satisfy any provision of the Code that would result in our failure to qualify as a REIT (other than a gross income or asset test requirement) and that violation is due to reasonable cause and not due to willful negligence, we may retain our REIT qualification, but we will be required to pay a penalty of $50,000 for each such failure;
- We may be required to pay monetary penalties to the IRS in certain circumstances, including if we fail to meet record-keeping requirements intended to monitor our compliance with rules relating to the composition of our shareholders, as described below in "-Requirements for Qualification as a REIT";
- If we should fail to distribute during each calendar year at least the sum of (a) 85% of our REIT ordinary income for such year, (b) 95% of our REIT capital gain net income for such year and (c) any undistributed taxable income from prior years, we would be subject to a 4% excise tax on the excess of such required distribution over the sum of (i) the amounts actually distributed plus (ii) retained amounts on which corporate level tax is paid by us;
- We may elect to retain and pay income tax on our net long-term capital gain, and in that case, a shareholder would include its proportionate share of our undistributed long-term capital gain in its income and would be allowed a credit for its proportionate share of the tax we paid;
- A 100% excise tax may be imposed on some items of income and expense that are directly or constructively paid between us, our tenants and/or our taxable REIT subsidiaries if and to the extent that the Internal Revenue Service successfully adjusts the reported amounts of these items;
- If we acquire appreciated assets from a C corporation (a corporation generally subject to corporate level tax) in a transaction in which the adjusted tax basis of the assets in our hands is determined by reference to the adjusted tax basis of the assets in the hands of the C corporation, we may be subject to tax on such appreciation at the highest corporate income tax rate then applicable if we subsequently recognize gain on a disposition of such assets during the five-year period following their acquisition from the C corporation, unless the C corporation elects to treat the assets as if they were sold for their fair market value at the time of our acquisition; and
- Income earned by any of our taxable REIT subsidiaries will be subject to tax at regular corporate rates.

Requirements for Qualification as a REIT

We elected to be taxable as a REIT for U.S. federal income tax purposes for our taxable year ended December 31, 1986. In order to have so qualified, we must have met and continue to meet the requirements discussed below, relating to our organization, sources of income, nature of assets and distributions of income to shareholders.

The Code defines a REIT as a corporation, trust or association:

1.that is managed by one or more trustees or directors;

2.the beneficial ownership of which is evidenced by transferable shares or by transferable certificates of beneficial interest;

3.that would be taxable as a domestic corporation but for the special Code provisions applicable to REITs;

4.that is neither a financial institution nor an insurance company subject to certain provisions of the Code;

5.the beneficial ownership of which is held by 100 or more persons;

6.in which, during the last half of each taxable year, not more than 50% in value of the outstanding shares is owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include specified entities), after applying certain attribution rules;

7.that makes an election to be taxable as a REIT, or has made this election for a previous taxable year which has not been revoked or terminated, and satisfies all relevant filing and other administrative requirements established by the IRS that must be met to elect and maintain REIT status;

8.that uses a calendar year for federal income tax purposes and complies with the record keeping requirements of the Code and the Treasury regulations; and

9.that meets other applicable tests, described below, regarding the nature of its income and assets and the amount of its distributions.

Conditions (1) through (4) must be satisfied during the entire taxable year, and condition (5) must be satisfied during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months.

We have previously issued common shares in sufficient proportions to allow us to satisfy requirements (5) and (6) (the “100 Shareholder” and “five-or-fewer” requirements). In addition, our Declaration of Trust provides restrictions regarding the transfer of our shares that are intended to assist us in continuing to satisfy the requirements described in conditions (5) and (6) above. However, these restrictions may not ensure that we will, in all cases, be able to satisfy the requirements described in conditions (5) and (6) above. In addition, we have not obtained a ruling from the Internal Revenue Service as to whether the provisions of our Declaration of Trust concerning restrictions on transfer and conversion of common shares to “Excess Shares” will allow us to satisfy conditions (5) and (6). If we fail to satisfy such share ownership requirements, our status as a REIT will terminate. However, if the failure to meet the share ownership requirements is due to reasonable cause and not due to willful neglect, we may avoid termination of our REIT status by paying a penalty of $50,000.

To monitor compliance with the share ownership requirements, we are required to maintain records regarding the actual ownership of our shares. To do so, we must demand written statements each year from the record holders of certain percentages of our shares in which the record holders are to disclose the actual owners of the shares (the persons required to include in gross income the dividends paid by us). A list of those persons failing or refusing to comply with this demand must be maintained as part of our records. Failure by us to comply with these record-keeping requirements could subject us to monetary penalties. If we satisfy these requirements and have no reason to know that condition (6) is not satisfied, we will be deemed to have satisfied such condition. A shareholder that fails or refuses to comply with the demand is required by Treasury regulations to submit a statement with its tax return disclosing the actual ownership of the shares and other information.

Qualified REIT Subsidiaries

The Code provides that a corporation that is a “qualified REIT subsidiary” shall not be treated as a separate corporation, and all assets, liabilities and items of income, deduction and credit of a “qualified REIT subsidiary” shall be treated as assets, liabilities and items of income, deduction and credit of the REIT. A “qualified REIT subsidiary” is a corporation, all of the capital stock of which is owned by the REIT, that has not elected to be a “taxable REIT subsidiary” (discussed below). In applying the requirements described herein, all of our “qualified REIT subsidiaries” will be ignored, and all assets, liabilities and items of income, deduction and credit of such subsidiaries will be treated as our assets, liabilities and items of income, deduction and credit. These subsidiaries, therefore, will not be subject to federal corporate income taxation, although they may be subject to state and local taxation.

In the event that a qualified REIT subsidiary or another entity that is a disregarded subsidiary for U.S. federal income tax purposes ceases to be wholly owned by us (for example, if any equity interest in the subsidiary is acquired by a person other than us or another disregarded subsidiary of us), the subsidiary’s separate existence would no longer be disregarded for U.S. federal income tax purposes. Instead, it would have multiple owners and would be treated as either a partnership or a taxable corporation. Such an event could, depending on the circumstances, adversely affect our ability to satisfy the various asset and gross income tests applicable to REITs, including the requirement that REITs generally may not own, directly or indirectly, more than 10% of the value or voting power of the outstanding securities of another corporation. See “-Asset Tests” and “-Income Tests.”

Taxable REIT Subsidiaries

A REIT may generally jointly elect with a subsidiary corporation, whether or not wholly owned, to treat the subsidiary as a “taxable REIT subsidiary.” In addition, if a taxable REIT subsidiary owns, directly or indirectly, securities representing 35% or more of the vote or value of a subsidiary corporation, that subsidiary will also be treated as a taxable REIT subsidiary. A taxable REIT subsidiary is a corporation subject to U.S. federal income tax, and state and local income tax where applicable, as a regular “C” corporation. We generally may not own more than 10%, as measured by voting power or value, of the securities of a corporation that is not a qualified REIT subsidiary unless we and such corporation elect to treat such corporation as a taxable REIT subsidiary. Overall, no more than 20% of the value of a REIT’s assets (25% for taxable years beginning before January 1, 2018) may consist of stock or securities of one or more taxable REIT subsidiaries.

Income earned by a taxable REIT subsidiary is not attributable to us. Rather, the stock issued by a taxable REIT subsidiary to us is an asset in our hands, and we treat dividends paid to us from such taxable REIT subsidiary, if any, as income. This income can affect our income and asset tests calculations, as described below. As a result, income that might not be qualifying income for purposes of the income tests applicable to REITs could be earned by a taxable REIT subsidiary without affecting our status as a REIT. For example, a taxable REIT subsidiary of ours can perform some impermissible tenant services without causing us to receive impermissible tenant services income under the REIT income tests.

However, several provisions regarding the arrangements between a REIT and its taxable REIT subsidiaries ensure that a taxable REIT subsidiary will be subject to an appropriate level of U.S. federal income taxation. Further, the rules impose a 100% excise tax on certain transactions between a taxable REIT subsidiary and its parent REIT or the REIT’s tenants that are not conducted on an arm’s-length basis. The 100% tax also will apply to “redetermined services income,” meanings non-arm’s-length income of a taxable REIT subsidiary attributable to services provided to, or on behalf of, its parent REIT (other than services provided to the REIT’s tenants, which are potentially taxed as “redetermined rents”). A taxable REIT subsidiary may also engage in other activities that, if conducted by us other than through a taxable REIT subsidiary, could result in the receipt of non-qualified income or the ownership of non-qualified assets.

Under the TCJA, for taxable years beginning after December 31, 2017, taxpayers are subject to a limitation on their ability to deduct net business interest expense generally equal to 30% of adjusted taxable income, subject to certain exceptions. The CARES Act (i) increases the 30% limitation to 50% (A) for taxable years beginning in 2020 and (B) for taxable years beginning in 2019 for entities other than partnerships and (ii) permits an entity to elect to use its 2019 adjusted taxable income to calculate the applicable limitation for its taxable year beginning in 2020. These provisions may limit the ability of our taxable REIT subsidiaries to deduct interest, which could increase their taxable income.

Ownership of Partnership Interests by a REIT

A REIT that is a partner in a partnership is deemed to own its proportionate share of the assets of the partnership and is deemed to receive the income of the partnership attributable to such share. In addition, the character of the assets and gross income of the partnership retains the same character in the hands of the REIT (except that, for purposes of the 10% of value asset test described below, our proportionate share of the partnership's assets is based on our proportionate interest in the equity and certain debt securities issued by the partnership, as described in the Code). Accordingly, our proportionate share of the assets, liabilities and items of income of the Operating Partnership are treated as assets, liabilities and items of income of ours for purposes of applying the requirements described herein. Brandywine has control over the Operating Partnership and most of the partnership and limited liability company subsidiaries of the Operating Partnership and intends to operate them in a manner that is consistent with the requirements for qualification of Brandywine as a REIT.

Income Tests

In order to qualify as a REIT, Brandywine must generally satisfy two gross income requirements on an annual basis. First, at least 75% of our gross income (excluding gross income from prohibited transactions) for each taxable year must be derived directly or indirectly from the following: investments relating to real property or mortgages on real property, including "rents from real property"; dividends received from other REITs; interest income derived from mortgage loans secured by real property (including certain types of mortgage-backed securities); interest on mortgage loans secured by both real and personal property if the fair market value of such personal property does not exceed 15% of the total fair market value of all property securing the loans; gains from the sale of real estate assets (except for gain from a nonqualified publicly offered REIT debt instrument (as defined below)); and income from certain kinds of temporary investments. Second, at least 95% of our gross income (excluding gross income from prohibited transactions) for each taxable year must be derived from the same items which qualify under the 75% gross income test, and from dividends, interest and gain from the sale or disposition of securities, which need not have any relation to real property.

Rents received by a REIT will qualify as "rents from real property" in satisfying the gross income requirements described above only if several conditions are met.

- The amount of rent must not be based in whole or in part on the income or profits of any person. However, an amount received or accrued generally will not be excluded from the term "rents from real property" solely by reason of being based on a fixed percentage or percentages of gross receipts or sales.
- Rents received from a tenant will not qualify as "rents from real property" in satisfying the gross income tests if the REIT, or a direct or indirect owner of 10% or more of the REIT, directly or constructively, owns 10% or more of such tenant (a "Related Party Tenant"). However, rental payments from a taxable REIT subsidiary will qualify as rents from real property even if we own more than 10% of the total value or combined voting power of the taxable REIT subsidiary if at least 90% of the property is leased to unrelated tenants and the rent paid by the taxable REIT subsidiary is substantially comparable to the rent paid by the unrelated tenants for comparable space.
- Rent attributable to personal property leased in connection with a lease of real property will not qualify as "rents from real property" if such rent exceeds 15% of the total rent received under the lease.
- For rents received to qualify as "rents from real property," we generally must not operate or manage the property or furnish or render services to tenants, except through an "independent contractor" who is adequately compensated and from whom the REIT derives no income, or through a taxable REIT subsidiary. The "independent contractor" requirement, however, does not apply to the extent the services provided by the REIT are "usually or customarily rendered" in connection with the rental of space for occupancy only, and are not otherwise considered "rendered to the occupant." In addition, a *de minimis* rule applies with respect to non-customary services. Specifically, if the value of the non-customary service income with respect to a property (valued at no less than 150% of the direct costs of performing such services) is 1% or less of the total income derived from the property, then all rental income except the non-customary service income will qualify as "rents from real property." A taxable REIT subsidiary may provide services (including non-customary services) to a REIT's tenants without "tainting" any of the rental income received by the REIT, and it will be able to manage or operate properties for third parties and generally engage in other activities unrelated to real estate.

We do not anticipate receiving rent that is based in whole or in part on the income or profits of any person (except by reason of being based on a fixed percentage or percentages of gross receipts or sales consistent with the rules described above). We also do not anticipate receiving more than a *de minimis* amount of rents from any Related Party Tenant or rents attributable to personal property leased in connection with real property that will exceed 15% of the total rents received with respect to such real property.

We provide services to our properties that we own through the Operating Partnership, and we believe that all of such services will be considered "usually or customarily rendered" in connection with the rental of space for occupancy only so that the provision of such services will not jeopardize the qualification of rent from the properties as "rents from real property." In the case of any services that are not "usual and customary" under the foregoing rules, we intend to employ an "independent contractor" or a taxable REIT subsidiary to provide such services.

The Operating Partnership may receive certain types of income that will not qualify under the 75% or 95% gross income tests. In particular, dividends received from a taxable REIT subsidiary will not qualify under the 75% test. We believe, however, that the aggregate amount of such items and other non-qualifying income in any taxable year will not cause Brandywine to exceed the limits on non-qualifying income under either the 75% or 95% gross income tests.

If Brandywine fails to satisfy one or both of the 75% or 95% gross income tests for any taxable year, Brandywine may nevertheless qualify as a REIT for such year if it is entitled to relief under certain provisions of the Code. These relief provisions will be generally available if (1) the failure to meet such tests was due to reasonable cause and not due to willful neglect, (2) we have attached a schedule of the sources of our income to our return and (3) any incorrect information on the schedule was not due to fraud with intent to evade tax. In addition, we must also file a disclosure schedule with the IRS after we determine that we have not satisfied one of the gross income tests. It is not possible, however, to state whether in all circumstances Brandywine would be entitled to the benefit of these relief provisions. As discussed above in "-Taxation of Brandywine as a REIT," even if these relief provisions apply, a tax would be imposed based on the non-qualifying income.

Asset Tests

At the close of each quarter of each taxable year, Brandywine must satisfy the following five tests relating to the nature of our assets:

First, at least 75% of the value of our total assets must be represented by some combination of “real estate assets,” cash or cash items, U.S. government securities, and, under some circumstances, stock or debt instruments purchased with new capital. For this purpose, “real estate assets” include interests in real property, such as land, buildings, leasehold interests in real property, stock of other REITs, certain kinds of mortgage-backed securities and mortgage loans, and: (i) personal property leased in connection with real property to the extent that the rents from personal property are treated as “rent from real property” for purposes of the 75% income test, and (ii) debt instruments issued by publicly offered REITs. Assets that do not qualify for purposes of the 75% test are subject to the additional asset tests described below, while securities that do qualify for purposes of the 75% test are generally not subject to the additional asset tests.

Second, the value of any one issuer’s securities we own may not exceed 5% of the value of our total assets.

Third, we may not own more than 10% of the vote or value of any one issuer’s outstanding securities. The 5% and 10% tests do not apply to our interests in the Operating Partnership, non-corporate subsidiaries, taxable REIT subsidiaries and any qualified REIT subsidiaries, and the 10% value test does not apply with respect to certain “straight debt” securities.

The safe harbor under which certain types of securities are disregarded for purposes of the 10% value limitation includes (1) straight debt securities (including straight debt securities that provide for certain contingent payments); (2) any loan to an individual or an estate; (3) any rental agreement described in Section 467 of the Code, other than with a “related person”; (4) any obligation to pay rents from real property; (5) certain securities issued by a State or any political subdivision thereof, or the Commonwealth of Puerto Rico; (6) any security issued by a REIT; and (7) any other arrangement that, as determined by the Secretary of the Treasury, is excepted from the definition of a security. In addition, for purposes of applying the 10% value limitation, (a) a REIT’s interest as a partner in a partnership is not considered a security; (b) any debt instrument issued by a partnership is not treated as a security if at least 75% of the partnership’s gross income is from sources that would qualify for the 75% REIT gross income test and (c) any debt instrument issued by a partnership is not treated as a security to the extent of the REIT’s interest as a partner in the partnership.

Fourth, not more than 20% (25% for taxable years beginning before January 1, 2018) of the value of our assets may be represented by securities of one or more taxable REIT subsidiaries.

Fifth, not more than 25% of the value of our total assets may be represented by “nonqualified publicly offered REIT debt instruments.” “Nonqualified publicly offered REIT debt instruments” are debt instruments issued by publicly offered REITs that are not secured by a mortgage on real property.

We may own, directly or indirectly, common shares of certain entities that have elected or will elect to be treated as a real estate investment trusts (“Captive REITs”). Provided that each of the Captive REITs continues to qualify as a REIT (including satisfaction of the ownership, income, asset and distribution tests discussed herein) the common shares of the Captive REITs will qualify as real estate assets under the 75% test. However, if any Captive REIT fails to qualify as a REIT in any year, then the common shares of such Captive REIT will not qualify as real estate assets under the 75% test. In addition, if we own, directly or indirectly, more than 10% of the common shares of each Captive REIT, Brandywine would not satisfy the 10% test if any Captive REIT were to fail to qualify as a REIT. Accordingly, Brandywine’s qualification as a REIT depends upon the ability of any more than 10% owned Captive REIT to continue to qualify as a REIT.

After initially meeting the asset tests at the close of any quarter, Brandywine will not lose its status as a REIT for failure to satisfy the asset tests at the end of a later quarter solely by reason of changes in asset values. If the failure to satisfy the asset tests results from an acquisition of securities or other property during a quarter, the failure can be cured by disposition of sufficient non-qualifying assets within 30 days after the close of that quarter. We intend to maintain adequate records of the value of our assets to ensure compliance with the asset tests, and to take such other action within 30 days after the close of any quarter as may be required to cure any noncompliance. However, there can be no assurance that such other action will always be successful. If we fail to cure any noncompliance with the asset tests within such time period, our status as a REIT would be lost.

The Code provides relief from certain failures to satisfy the REIT asset tests. If the failure relates to the 5% test or 10% test, and if the failure is *de minimis* (does not exceed the lesser of $10 million or 1% of our assets as of the end of the quarter), we may avoid the loss of our REIT status by disposing of sufficient assets to cure the failure within 6 months after the end of the quarter in which the failure was identified. For failures to meet the asset tests that are more than a *de minimis* amount, we may avoid the loss of our REIT status if: (1) the failure was due to reasonable cause, (2) we file a disclosure schedule at the end of the quarter in which the failure was identified, (3) we dispose of sufficient assets to cure the failure within 6 months after the end of the quarter and (4) we pay a tax equal to the greater of $50,000 or the highest corporate tax rate multiplied by the net income generated by the non-qualifying assets.

Annual Distribution Requirements

In order to qualify as a REIT, Brandywine is required to distribute dividends (other than capital gain dividends) to our shareholders in an amount at least equal to (1) the sum of (a) 90% of its “REIT taxable income” (computed without regard to the dividends paid deduction and the REIT’s net capital gain or loss) and (b) 90% of the net income (after tax), if any, from foreclosure property, minus (2) certain “excess” non-cash income as defined in the Code. These distributions must be paid in the taxable year to which they relate, or in the following taxable year if such distributions are declared in October, November or December of the taxable year, are payable to shareholders of record on a specified date in any such month, and are actually paid before the end of January of the following year.

Such distributions are treated as both paid by us and received by our shareholders on December 31 of the year in which they are declared.

Under the TCJA, for taxable years beginning after December 31, 2017, unless it elects otherwise, Brandywine’s deduction for net business interest expense will generally be limited to 30% of its taxable income, as adjusted for certain items of income, gain, deduction or loss. The CARES Act increases the 30% limitation to 50% for Brandywine’s taxable years beginning in 2019 or 2020 and permits Brandywine to elect to use its 2019 adjusted taxable income to calculate the applicable limitation for its 2020 taxable year. Any business interest deduction that is disallowed due to this limitation may be carried forward to future taxable years. If Brandywine, the Operating Partnership or the Subsidiary Partnerships (as defined below) are subject to this interest expense limitation, Brandywine’s REIT taxable income for a taxable year may be increased. Taxpayers that conduct certain real estate businesses may elect not to have this interest expense limitation apply to them, provided that they use an alternative depreciation system to depreciate certain property. Each of Brandywine, the Operating Partnership and the Subsidiary Partnerships may be eligible to make this election. If any such entity makes this election, although it would not be subject to the interest expense limitation described above, its depreciation deductions may be reduced and, as a result, Brandywine’s REIT taxable income for a taxable year may be increased.

In addition, at our election, a distribution for a taxable year may be declared before we timely file our tax return for the year provided we pay such distribution with or before our first regular dividend payment after such declaration, and such payment is made during the 12-month period following the close of such taxable year. Such distributions are taxable to our shareholders in the year in which paid, even though the distributions relate to our prior taxable year for purposes of the 90% distribution requirement.

To the extent that we distribute at least 90%, but less than 100%, of our net taxable income, we will be subject to tax at ordinary corporate tax rates on the retained portion. In addition, we may elect to retain, rather than distribute our net long-term capital gains and pay tax on such gains. In this case, we would elect to have our shareholders include their proportionate share of such undistributed long-term capital gains in their income and receive a corresponding credit for their proportionate share of the tax paid by us. Our shareholders would then increase their adjusted basis in our shares by the difference between the amount included in their long-term capital gains and the tax deemed paid with respect to their shares.

If we should fail to distribute during each calendar year (or, in the case of distributions with declaration and record dates falling in the last three months of the calendar year, by the end of January following such calendar year) at least the sum of (1) 85% of our REIT ordinary income for such year, (2) 95% of our REIT net capital gain income for such year and (3) any undistributed taxable income from prior periods, we would be subject to a 4% excise tax on the excess of such required distribution over the sum of (a) the amounts actually distributed plus (b) retained amounts on which corporate level tax is paid by us.

Brandywine intends to make timely distributions sufficient to satisfy the annual distribution requirements. In this regard, the limited partnership agreement of the Operating Partnership authorizes Brandywine, as general partner, to operate the partnership in a manner that will enable it to satisfy the REIT requirements and avoid the imposition of any federal income or excise tax liability. It is possible that we, from time to time, may not have sufficient cash or other liquid assets to meet the 90% distribution requirement. This could arise, for example, when there is an expenditure of cash for nondeductible items such as principal amortization or capital expenditures. In addition, because we may deduct capital losses only to the extent of our capital gains, our REIT taxable income may exceed our economic income. In order to meet the 90% distribution requirement, we may borrow or may cause the Operating Partnership to arrange for short-term or possibly long-term borrowing to permit the payment of required distributions, or we may pay dividends in the form of taxable in-kind distributions of property, including potentially, our shares.

Under certain circumstances, Brandywine may be able to rectify a failure to meet the distribution requirement for a given year by paying “deficiency dividends” to shareholders in a later year that may be included in Brandywine’s deduction for distributions paid for the earlier year. Thus, Brandywine may be able to avoid losing its REIT qualification or being taxed on amounts distributed as deficiency dividends. However, Brandywine will be required to pay to the IRS interest and a penalty based upon the amount of any deduction taken for deficiency dividends.

Failure to Qualify

The Code provides relief for many failures to satisfy the REIT requirements. In addition to the relief provisions for failures to satisfy the income and asset tests (discussed above), the Code provides additional relief for other failures to satisfy REIT requirements. If the failure is due to reasonable cause and not due to willful neglect, and we elect to pay a penalty of $50,000 for each failure, we can avoid the loss of our REIT status.

If Brandywine fails to qualify for taxation as a REIT in any taxable year and the relief provisions do not apply, it will be subject to tax (including, for tax years beginning before January 1, 2018, any applicable corporate alternative minimum tax) on its taxable income at regular corporate rates. Distributions to shareholders in any year in which Brandywine fails to qualify will not be deductible to us. In such event, to the extent of Brandywine’s current and accumulated earnings and profits, all distributions to shareholders will be taxable to them as dividends, and, subject to certain limitations of the Code, corporate distributees may be eligible for the dividends received deduction. Under current law, such dividends will generally be taxable to individual domestic shareholders at the 20% rate for qualified dividends provided that applicable holding period requirements are met. Non-corporate shareholders, including individuals, generally may deduct up to 20% of dividends from a REIT, other than capital gain dividends and dividends treated as qualified dividend income, for taxable years beginning after December 31, 2017 and before January 1, 2026 for purposes of determining their U.S. federal income tax (but not for purposes of the 3.8% Medicare tax), subject to certain limitations. If we fail to qualify as a REIT, such shareholders may not claim this deduction with respect to dividends paid by us. Unless entitled to relief under specific statutory provisions, Brandywine also will be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost. It is not possible to state whether in all circumstances Brandywine would be entitled to such statutory relief.

Prohibited Transactions

Net income derived from a prohibited transaction is subject to a 100% tax. The term “prohibited transaction” generally includes a sale or other disposition of property (other than foreclosure property) that is held primarily for sale to customers in the ordinary course of a trade or business. Under existing law, whether property is held as inventory or primarily for sale to customers in the ordinary course of a trade or business is a question of fact that depends on all the facts and circumstances of a particular transaction. We intend to hold properties for investment with a view to long-term appreciation, to engage in the business of acquiring, developing, owning and operating properties, and to make occasional sales of properties as are consistent with our investment objectives. No assurance can be given that any property that we sell will not be treated as property held for sale to customers, or that we can comply with certain safe-harbor provisions of the Code that would prevent the imposition of the 100% tax. The 100% tax does not apply to gains from the sale of property that is held through a taxable REIT subsidiary or other taxable corporation, although such income will be subject to tax in the hands of that corporation at regular corporate tax rates.

Foreclosure Property

Foreclosure property is real property (including interests in real property) and any personal property incident to such real property (1) that is acquired by a REIT as a result of the REIT having bid on the property at foreclosure, or having otherwise reduced the property to ownership or possession by agreement or process of law, after there was a default (or default was imminent) on a lease of the property or a mortgage loan held by the REIT and secured by the property, (2) for which the related loan or lease was made, entered into or acquired by the REIT at a time when default was not imminent or anticipated and (3) for which such REIT makes an election to treat the property as foreclosure property. REITs generally are subject to tax at the maximum corporate rate (35% for tax years beginning on or before December 31, 2017 and 21% for tax years beginning after that date) on any net income from foreclosure property, including any gain from the disposition of the foreclosure property, other than income that would otherwise be qualifying income for purposes of the 75% gross income test. Any gain from the sale of property for which a foreclosure property election has been made will not be subject to the 100% tax on gains from prohibited transactions described above, even if the property is held primarily for sale to customers in the ordinary course of a trade or business.

Hedging

We may enter into hedging transactions with respect to one or more of our assets or liabilities. Hedging transactions could take a variety of forms, including interest rate swaps or cap agreements, options, futures contracts, forward rate agreements or similar financial instruments. Except to the extent provided by Treasury regulations, any income from a hedging transaction (i) made in the normal course of our business primarily to manage risk of interest rate or price changes or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred by us to acquire or own real estate assets or (ii) entered into primarily to manage the risk of currency fluctuations with respect to any item of income or gain that would be qualifying income under the 75% or 95% gross income tests (or any property which generates such income or gain), which is clearly identified as such before the close of the day on which it was acquired, originated or entered into, including gain from the disposition of such a transaction, will not constitute gross income for purposes of the 95% gross income test and the 75% gross income test. To the extent we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both the 75% and 95% gross income tests. We intend to structure any hedging transactions in a manner that does not jeopardize our ability to qualify as a REIT.

If Brandywine has entered into a hedging transaction described in (i) or (ii), and a portion of the hedged indebtedness or property is extinguished or disposed of and, in connection with such extinguishment or disposition, Brandywine enters into a new clearly identified hedging transaction (a “New Hedge”), income from the applicable hedge and income from the New Hedge (including gain from the disposition of such New Hedge) will not be treated as gross income for purposes of the 95% and 75% gross income tests.

Tax Aspect of Investments in the Operating Partnership and the Subsidiary Partnerships

The following discussion summarizes certain Federal income tax considerations applicable to Brandywine’s investment in the Operating Partnership and the Operating Partnership’s investments in subsidiary partnerships, limited liability companies, and joint ventures (referred to collectively as the “**Subsidiary Partnerships**”).

General

We may hold investments through entities that are classified as partnerships for U.S. federal income tax purposes, including our interest in the Operating Partnership and the equity interests in the Subsidiary Partnerships. In general, partnerships are “pass-through” entities that are not subject to U.S. federal income tax. Rather, partners are allocated their proportionate shares of the items of income, gain, loss, deduction and credit of a partnership, and are subject to tax on these items without regard to whether the partners receive a distribution from the partnership. We will include in our income our proportionate share of these partnership items of the Operating Partnership and the Subsidiary Partnerships for purposes of the various REIT income tests and in the computation of our REIT taxable income. Moreover, for purposes of the REIT asset tests, we will include our proportionate share of assets held by the Operating Partnership and the Subsidiary Partnerships. Consequently, to the extent that we hold, directly or indirectly through another “pass-through” entity, an equity interest in a partnership, the partnership’s assets and operations may affect our ability to qualify as a REIT.

Among the allocable share of deductions that Brandywine would receive are interest deductions of the Operating Partnership and its Subsidiary Partnerships. The TCJA limits a taxpayer’s interest expense deduction to the sum of 30% of adjusted taxable income, business interest, and certain other amounts. The CARES Act provision that increases the 30% limitation to 50% for taxable years beginning in 2019 or 2020 does not apply to partnerships like the Operating Partnership with respect to taxable years beginning in 2019 (and thus, only applies with respect to taxable years beginning in 2020). However, under the provision of the CARES Act, the Operating Partnership may elect to use its 2019 adjusted taxable income to calculate the applicable limitation for its taxable year beginning in 2020. Adjusted taxable income does not include items of income or expense not allocable to a trade or business, business interest or expense, the new deduction for qualified business income, NOLs, and for years prior to 2022, deductions for depreciation, amortization, or depletion. For partnerships, the interest deduction limitation is applied at the partnership level, subject to certain adjustments to the partners for unused deduction limitation at the partnership level. Unless Brandywine elects otherwise, 50% of its share of the Operating Partnership’s “excess business interest” for its 2019 taxable year will be treated as paid by Brandywine in its 2020 taxable year and will not be subject to any limitation. The interest deduction limitation applies to taxable years beginning after December 31, 2017.

The TCJA allows a real property trade or business to elect out of this interest limitation so long as it uses a 40-year recovery period for nonresidential real property, a 30-year recovery period for residential rental property, and a 20-year recovery period for related improvements described below. Disallowed interest expense is carried forward indefinitely (subject to special rules for partnerships).

For taxpayers that do not use the TCJA’s real property trade or business exception to the business interest deduction limitations, the TCJA maintains the current 39-year and 27.5-year straight line recovery periods for nonresidential real property and residential rental property, respectively, and provides that tenant improvements for such taxpayers are subject to a general 15-year recovery period. Also, the TCJA temporarily allows 100% expensing of certain new or used tangible property through 2022, phasing out at 20% for each following year (with an election available for 50% expensing of such property if placed in service during the first taxable year ending after September 27, 2017). The changes apply, generally, to property acquired after September 27, 2017 and placed in service after September 27, 2017.

Classification of the Operating Partnership and the Subsidiary Partnerships as Partnerships

The investment by us in partnerships involves special tax considerations, including the possibility of a challenge by the IRS to the status of the Operating Partnership or any of the Subsidiary Partnerships as a partnership, as opposed to an association taxable as a corporation, for U.S. federal income tax purposes. If any of these entities were treated as an association for U.S. federal income tax purposes, it would be taxable as a corporation and, therefore, could be subject to an entity-level tax on its income. In such a situation, the character of our assets and items of our gross income would change and could preclude us from satisfying the REIT asset tests or the REIT income tests as discussed in “-Taxation of the Company-Asset Tests” and “-Taxation of the Company-Income Tests” above, and in turn could prevent us from qualifying as a REIT. See “-Taxation of the Company -Failure to Qualify” above, for a discussion of the effect of our failure to meet these tests for a taxable year. In addition, any change in the status of any of the Operating Partnership and the Subsidiary Partnerships for tax purposes might be treated as a taxable event, in which case we could have taxable income that is subject to the REIT distribution requirements without receiving any cash.

Treasury regulations provide that a domestic business entity not otherwise organized as a corporation (an “Eligible Entity”) may elect to be treated as a partnership or disregarded entity for federal income tax purposes. Generally, an Eligible Entity will be classified as a partnership or disregarded entity (depending on its number of owners) for federal income tax purposes unless it elects otherwise. The Operating Partnership and the Subsidiary Partnerships (other than those Subsidiary Partnerships that have elected to be treated as taxable REIT subsidiaries) intend to claim classification as partnerships or disregarded entities under these Treasury regulations. As a result, we believe that the Operating Partnership and the Subsidiary Partnerships (other than those Subsidiary Partnerships that have elected to be treated as taxable REIT subsidiaries) will be classified as partnerships or disregarded entities for U.S. federal income tax purposes. We have not requested and do not intend to request a ruling from the IRS that the Operating Partnership or the Subsidiary Partnerships will be classified as partnerships for U.S. federal income tax purposes.

To be partnerships for U.S. federal income tax purposes, the Operating Partnership and the Subsidiary Partnerships generally must not be “publicly traded partnerships.” A publicly traded partnership is a partnership whose interests are traded on an established securities market or are readily tradable on a secondary market (or a substantial equivalent). A publicly traded partnership is generally treated as a corporation for U.S. federal income tax purposes, but will not be so treated if, for each taxable year beginning after December 31, 1987 in which it was classified as a publicly traded partnership, at least 90% of the partnership’s gross income consisted of specified passive income, including real property rents (which includes rents that would be qualifying income for purposes of the 75% gross income test, with certain modifications that make it easier for the rents to qualify for the 90% passive income exception), gains from the sale or other disposition of real property, interest, and dividends (the “90% passive income exception”).

Treasury regulations provide limited safe harbors from treatment as a publicly traded partnership. We expect that the Operating Partnership and the Subsidiary Partnerships will fall within one of the “safe harbors” for the partnership to avoid being classified as a publicly traded partnership. However, the ability to satisfy the requirements of some of these safe harbors depends on the results of the actual operations of the relevant entities and accordingly no assurance can be given that any such partnership would not be treated as a publicly traded partnership. Even if a partnership failed to meet one of the safe harbors, it generally will not be treated as a corporation if it qualifies for the 90% passive income exception discussed immediately above.

Partnership Allocations

Although a partnership agreement generally will determine the allocation of income and losses among partners, such allocations will be disregarded for tax purposes if they do not comply with the provisions of Section 704(b) of the Code and the Treasury regulations promulgated thereunder, which require that partnership allocations respect the economic arrangement of the partners. If an allocation is not recognized for U.S. federal income tax purposes, the item subject to the allocation will be reallocated in accordance with the partners’ interests in the partnership, which will be determined by taking into account all of the facts and circumstances relating to the economic arrangement of the partners with respect to such item. The Operating Partnership’s allocations of taxable income and loss are intended to comply with the requirements of Section 704(b) of the Code and the Treasury regulations promulgated thereunder.

Tax Allocations With Respect to Contributed Properties

Pursuant to Section 704(c) of the Code, items of income, gain, loss and deduction attributable to appreciated or depreciated property that is contributed to a partnership in exchange for an interest in the partnership must be allocated for U.S. federal income tax purposes in a manner such that the contributor is charged with or benefits from the unrealized gain or unrealized loss associated with the property at the time of the contribution. The amount of such unrealized gain or unrealized loss is generally equal to the difference between the fair market value of the contributed property at the time of contribution and the adjusted tax basis of such property at the time of contribution. Such allocations are solely for federal income tax purposes and do not affect other economic or legal arrangements among the partners.

Our Operating Partnership has entered into transactions involving the contribution to the Operating Partnership of appreciated property, and the Operating Partnership may enter into such transactions in the future. The partnership agreement of the Operating Partnership requires allocations of income, gain, loss and deduction attributable to contributed property to be made in a manner that is consistent with Section 704(c) of the Code. Treasury regulations issued under Section 704(c) give partnerships a choice of several methods of allocating taxable income with respect to contributed properties. Depending upon the method chosen, (1) our tax depreciation deductions attributable to those properties may be lower than they would have been if our Operating Partnership had acquired those properties for cash and (2) in the event of a sale of such properties, we could be allocated gain in excess of our corresponding economic or book gain. These allocations may cause us to recognize taxable income in excess of cash proceeds received by us, which might adversely affect our ability to comply with the REIT distribution requirements or result in our shareholders recognizing additional dividend income without an increase in distributions.

Depreciation

The Operating Partnership's assets include a substantial amount of appreciated property contributed by its partners. Assets contributed to a partnership in a tax-free transaction generally retain the same depreciation method and recovery period as they had in the hands of the partner who contributed them to the partnership. Accordingly, a substantial amount of the Operating Partnership's depreciation deductions for its real property are based on the historic tax depreciation schedules for the properties prior to their contribution to the Operating Partnership. The properties are being depreciated over a range of 15 to 40 years using various methods of depreciation which were determined at the time that each item of depreciable property was placed in service. In certain instances where a partnership interest rather than real property is contributed to the Partnership, the real property may not carry over its recovery period but rather may, similarly, be subject to the lengthier recovery period.

Basis in Operating Partnership Interest

Our adjusted tax basis in each of the partnerships in which we have an interest generally (1) will be equal to the amount of cash and the basis of any other property contributed to such partnership by us, (2) will be increased by (a) our allocable share of such partnership's income and (b) our allocable share of any indebtedness of such partnership, and (3) will be reduced, but not below zero, by our allocable share of (a) such partnership's loss and (b) the amount of cash and the tax basis of any property distributed to us and by constructive distributions resulting from a reduction in our share of indebtedness of such partnership.

If our allocable share of the loss (or portion thereof) of any partnership in which we have an interest would reduce the adjusted tax basis of our partnership interest in such partnership below zero, the recognition of such loss will be deferred until such time as the recognition of such loss (or portion thereof) would not reduce our adjusted tax basis below zero. To the extent that distributions to us from a partnership, or any decrease in our share of the nonrecourse indebtedness of a partnership (each such decrease being considered a constructive cash distribution to the partners), would reduce our adjusted tax basis below zero, such distributions (including such constructive distributions) would constitute taxable income to us. Such distributions and constructive distributions normally would be characterized as long-term capital gain if our interest in such partnership has been held for longer than the long-term capital gain holding period (currently 12 months).

Sale of Partnership Property

Generally, any gain realized by a partnership on the sale of property held by the partnership for more than 12 months will be long-term capital gain, except for any portion of such gain that is treated as depreciation or cost recovery recapture. However, under requirements applicable to REITs under the Code, our share as a partner of any gain realized by the Operating Partnership on the sale of any property held as inventory or other property held primarily for sale to customers in the ordinary course of a trade or business will be treated as income from a prohibited transaction that is subject to a 100% penalty tax. See -Taxation of the Company-Prohibited Transactions."

Partnership Audit Rules.

Congress recently revised the rules applicable to federal income tax audits of partnerships (such as the Operating Partnership) and the collection of any tax resulting from any such audits or other tax proceedings, generally for taxable years beginning after December 31, 2017. Under the new rules, a partnership itself may be liable for a tax computed by reference to the hypothetical increase in partner-level taxes (including interest and penalties) resulting from an adjustment of partnership tax items on audit, regardless of changes in the composition of the partners (or their relative ownership) between the year under audit and the year of the adjustment. The new rules also include an elective alternative method under which the additional taxes resulting from the adjustment are assessed against the affected partners, subject to a higher rate of interest than otherwise would apply. Although it is uncertain how these new rules will be implemented, it is possible that they could result in partnerships in which we directly or indirectly invest being required to pay additional taxes, interest and penalties as a result of an audit adjustment, and we, as a direct or indirect partner of those partnerships could be required to bear the economic burden of those taxes, interest and penalties even though we, as a REIT, may not otherwise have been required to pay additional corporate-level taxes as a result of the related audit adjustment. The changes created by these new rules are sweeping and, in many respects, dependent on the promulgation of future regulations or other guidance by the U.S. Treasury. Investors are urged to consult with their tax advisors with respect to those changes and their potential impact on their investment in our shares.

Taxation of Shareholders

As used herein, a "U.S. Shareholder" means a beneficial owner of our common shares or preferred shares, who is, for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if it (a) is subject to the primary supervision of a court within the U.S. and one or more U.S. persons have the authority to control all substantial decisions of the trust or (b) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

As used herein, a "non-U.S. Shareholder" means a beneficial owner of our common shares or preferred shares that is not a "U.S. Shareholder" and that is not a partnership (or other entity treated as a partnership for U.S. federal income tax purposes).

If a partnership holds common shares or preferred shares, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding common shares or preferred shares, you should consult your tax advisor with regard to the U.S. federal, state, local and non-U.S. tax consequences particular to your ownership of our common shares or preferred shares.

Taxation of Taxable U.S. Shareholders

Taxation of Ordinary Dividends on Shares

As long as Brandywine qualifies as a REIT, distributions made to Brandywine's taxable U.S. Shareholders out of current or accumulated earnings and profits (and not designated as capital gain dividends) ("**Ordinary Dividends**") will be dividends taxable to such U.S. Shareholders as ordinary income and will not be eligible for the dividends received deduction for corporations. However, for taxable years prior to 2026, individual shareholders generally are allowed to deduct 20% of the aggregate amount of Ordinary Dividends distributed by us that are "qualified REIT dividends," subject to certain limitations. Pursuant to the Treasury regulations, in order for a dividend paid by a REIT to be eligible to be treated as a "qualified REIT dividend," the shareholder must meet two holding period-related requirements. First, the shareholder must hold the REIT shares for a minimum of 46 days during the 91-day period that begins 45 days before the date on which the REIT share becomes ex-dividend with respect to the dividend. Second, the qualifying portion of the REIT dividend is reduced to the extent that the shareholder is under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property. The 20% deduction does not apply to REIT capital gain dividends or to REIT dividends that we designate as "qualified dividend income." Like most of the other changes made by the TCJA applicable to non-corporate taxpayers, the 20% deduction will expire on December 31, 2025 unless Congress acts to extend it. Prospective investors should consult their tax advisors concerning these limitations on the ability to deduct all or a portion of dividends received on shares of our common shares or preferred shares.

Dividends received from REITs are generally not eligible for taxation at the preferential rates for qualified dividends received by individual shareholders. We may designate a distribution as qualified dividend income to the extent of (1) qualified dividend income we receive during the current year (for example, dividends received from our taxable REIT subsidiaries), plus (2) income on which we have been subject to corporate level tax during the prior year (for example, undistributed REIT taxable income), plus (3) any income attributable to the sale of a built in gain asset that was acquired from a C corporation in a carry-over basis transaction less the tax paid on that income. To the extent that we designate a dividend as qualified dividend income, an individual will be taxable at preferential rates (currently a 20% maximum federal rate, but see the discussion below "Taxation of Taxable U.S. Shareholders-Tax Rates Applicable to Individual Shareholders under the TCJA" below) on such qualified dividend income provided certain holding period requirements are met. However, we expect that ordinary dividends paid by Brandywine generally will not be eligible for treatment as qualified dividend income to any significant extent.

Capital Gain Distributions

Distributions that are designated as long-term capital gain dividends will be taxed as long-term capital gains (to the extent they do not exceed our actual net capital gain for the taxable year) without regard to the period for which the U.S. Shareholder has held its shares of beneficial interest. In general, U.S. Shareholders will be taxable on long-term capital gains, currently at a maximum rate of 20% (but see the discussion below "Taxation of Taxable U.S. Shareholders-Tax Rates Applicable to Individual Shareholders under the TCJA" below), except that the portion of such gain that is attributable to depreciation recapture will be taxable at the maximum rate of 25%. However, corporate shareholders may be required to treat up to 20% of certain capital gain dividends as ordinary income.

We may elect under the applicable provisions of the Code to retain and pay tax on our net capital gains. In such event U.S. Shareholders will be taxable on the U.S. Shareholders' proportionate share of such undistributed capital gains. Each U.S. Shareholder would then receive a credit, for use on their return, in the amount of the U.S. Shareholders' proportionate share of the capital gains tax paid by us. If the credit results in an amount owed to a U.S. Shareholder, such U.S. Shareholder would receive a refund. A U.S. Shareholder's basis in our shares will be increased by the amount of the shareholder's allocable share of any retained capital gains less the shareholder's allocable share of the tax paid by us on such capital gains.

Dividends Generally

Effective for distributions paid and treated as being paid in taxable years beginning after December 31, 2015, the aggregate amount of dividends that Brandywine may designate as "capital gain dividends" or "qualified dividend income" with respect to any taxable year may not exceed the dividends paid by Brandywine with respect to such taxable year, including dividends that are paid in the following taxable year and treated as having been paid with respect to such taxable year by being (1) declared before Brandywine timely files its tax return for such taxable year and (2) paid with or before the first regular dividend payment after such declaration.

Non-Dividend Distributions

Distributions in excess of current and accumulated earnings and profits ("**Non-Dividend Distributions**") will not be taxable to a U.S. Shareholder to the extent that they do not exceed the adjusted basis of the U.S. Shareholder's shares, but rather will reduce the adjusted basis of such shares. To the extent that Non-Dividend Distributions exceed the adjusted basis of a U.S. Shareholder's shares, such distributions will be included in income as long-term capital gain (or short-term capital gain, generally, if the shares have been held for 12 months or less) assuming the shares are a capital asset in the hands of the U.S. Shareholder. In determining the extent to which a distribution on our shares constitutes a dividend for tax purposes, the earnings and profits of Brandywine will be allocated first to distributions with respect to the preferred shares and second to distributions with respect to common shares. Therefore, depending on our earnings and profits, distributions with respect to the preferred shares (as compared to distributions with respect to our common shares) are more likely to be treated as dividends than as a return of capital or a distribution in excess of basis.

Dividends Paid in Common Shares

We are allowed to satisfy the REIT distribution requirements with respect to certain taxable years by distributing up to 90% of our dividends in the form of common shares rather than cash. In the event that we pay a portion of a dividend in common shares, taxable U.S. Shareholders would be required to pay tax on the full amount of the dividend (including the fair market value of any common shares received) and the amount of the tax may exceed the amount of cash received. For taxable years prior to 2026, individual shareholders generally are allowed to deduct 20% of the aggregate amount of ordinary dividends distributed by us, subject to certain limitations.

Timing of Distributions

Any distribution declared by us in October, November or December of any year payable to a shareholder of record on a specified date in any such month shall be treated as both paid by Brandywine and received by the shareholder on December 31 of such year, provided that the distribution is actually paid by Brandywine not later than the end of January of the following calendar year. Shareholders may not include in their individual income tax returns any of Brandywine’s losses.

Sale or Exchange of Common and Preferred Shares

In general, a U.S. Shareholder will recognize capital gain or loss on the disposition of common or preferred shares equal to the difference between the sales price for such shares and the adjusted tax basis for such shares. In general, a U.S. Shareholder’s adjusted tax basis will equal the U.S. Shareholder’s acquisition cost, increased by the U.S. Shareholder’s allocable share of any retained capital gains, less the U.S. Shareholder’s allocable share of the tax paid by us on such retained capital gains, and reduced by Non-Dividend Distributions.

In general, capital gains recognized by individuals and other non-corporate U.S. Shareholders upon the sale or disposition of shares of our shares currently will be subject to a maximum U.S. federal income tax rate of 20%, if our shares are held for more than 12 months, and will be taxed at ordinary income rates (of up to 39.6% for tax years beginning on or before December 31, 2017 and 37% for tax years beginning after that date (but see the discussion below “Taxation of Taxable U.S. Shareholders-Tax Rates Applicable to Individual Shareholders under the TCJA” regarding the sunset of the 37% rate) if our shares are held for 12 months or less. Gains recognized by U.S. Shareholders that are corporations are subject to U.S. federal income tax at a maximum rate of 21% (and 35% for tax years beginning on or before December 31, 2017), whether or not classified as long-term capital gains.

Capital losses recognized by a U.S. Shareholder upon the disposition of our shares held for more than one year at the time of disposition will be considered long-term capital losses, and are generally available only to offset capital gain income of the U.S. Shareholder but not ordinary income (except in the case of individuals, who may offset up to $3,000 of ordinary income each year). However, any loss upon a sale or exchange of shares by a U.S. Shareholder who has held such shares for six months or less (after applying certain holding period rules) will be treated as a long-term capital loss to the extent such shareholder has received distributions from us required to be treated as long-term capital gain.

If a U.S. Shareholder recognizes a loss upon a subsequent disposition of our shares in an amount that exceeds a prescribed threshold, it is possible that the provisions of Treasury regulations involving “reportable transactions” could apply, with a resulting requirement to separately disclose the loss generating transactions to the IRS. While these regulations are directed towards “tax shelters,” they are written broadly, and apply to transactions that would not typically be considered tax shelters. Significant penalties apply for failure to comply with these requirements. You should consult your tax advisor concerning any possible disclosure obligation with respect to the receipt or disposition of our shares, or transactions that might be undertaken directly or indirectly by us. Moreover, you should be aware that we and other participants in transactions involving us (including our advisors) might be subject to disclosure or other requirements pursuant to these regulations.

Medicare Tax on Investment Income

Certain U.S. Shareholders who are individuals, estates or trusts and whose income exceeds certain thresholds must pay a 3.8% Medicare tax on "net investment income" which includes, among other things, dividends on shares, interest on debt securities and capital gains from the sale or other disposition of shares or debt securities, subject to certain exceptions. The temporary 20% deduction allowed by Section 199A of the Code, as added by the TCJA, with respect to ordinary REIT dividends received by non-corporate taxpayers is allowed only for purposes of Chapter 1 of the Code and thus is apparently not allowed as a deduction allocable to such dividends for purposes of determining the amount of net investment income subject to the 3.8% Medicare tax, which is imposed under Chapter 2A of the Code. Prospective investors should consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of our common shares, preferred shares or debt securities.

Passive Activity Losses and Investment Interest Limitations

Distributions from us and gain from the disposition of shares will not be treated as passive activity income and, therefore, U.S. Shareholders will not be able to apply any "passive losses" against such income. Distributions from us (to the extent they do not constitute a return of capital or capital gain dividends) will generally be treated as investment income for purposes of the investment interest limitation. A shareholder may elect to treat capital gain dividends and capital gains from the disposition of shares as investment income for purposes of the investment interest limitation, but in such event a shareholder will be taxed at ordinary income rates on such amounts.

Redemption of Preferred Shares

Our preferred shares are redeemable by us under certain circumstances. A redemption of preferred shares will be treated under Section 302 of the Code as a distribution taxable as a dividend (to the extent of our current and accumulated earnings and profits) at ordinary income rates, unless the redemption satisfies one of the tests set forth in Section 302(b) of the Code and is therefore treated as a sale or exchange of the redeemed shares. The redemption will be treated as a sale or exchange if it (i) is "substantially disproportionate" with respect to the U.S. Shareholder, (ii) results in a "complete termination" of the U.S. Shareholder's share interest in our company or (iii) is "not essentially equivalent to a dividend" with respect to the U.S. Shareholder, all within the meaning of Section 302(b) of the Code.

In determining whether any of these tests has been met, there must be taken into account not only any preferred shares owned by the U.S. Shareholder, but also such U.S. Shareholder's ownership of our common shares, other series of preferred shares and any options to acquire any of the foregoing. The U.S. Shareholder also must take into account any such securities (including options) which are considered to be owned by such holder by reason of the constructive ownership rules set forth in Sections 318 and 302(c) of the Code. If a particular U.S. Shareholder owns (actually or constructively) no common shares or an insubstantial percentage of common shares or preferred shares, based upon current law, it is probable that the redemption of the preferred shares from such holder would be considered "not essentially equivalent to a dividend." However, because the determination as to whether any of the alternative tests of Section 302(b) of the Code will be satisfied with respect to any particular holder of preferred shares depends upon the facts and circumstances at the time the determination must be made, prospective holders of preferred shares are advised to consult their own tax advisors to determine such tax treatment.

If a redemption of preferred shares is not treated as a distribution taxable as a dividend to a particular U.S. Shareholder, it will be treated as a taxable sale or exchange by that U.S. Shareholder. As a result, the U.S. Shareholder will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between (i) the amount of cash and the fair market value of any property received (less any portion thereof attributable to accumulated and declared but unpaid dividends, which will be taxable as a dividend to the extent of our current and accumulated earnings and profits) and (ii) the U.S. Shareholder's adjusted tax basis in the shares. Such gain or loss will be capital gain or loss if the shares were held as a capital asset, and will be long-term gain or loss if such shares were held for more than one year.

If the redemption is treated as a distribution taxable as a dividend, the amount of the distribution will be measured by the amount of cash and the fair market value of any property received by the U.S. Shareholder. The U.S. Shareholder's adjusted tax basis in the preferred shares redeemed will be transferred to any other shareholdings of the U.S. Shareholder in Brandywine. If the U.S. Shareholder of the preferred shares owns no other shares, under certain circumstances, such basis may be transferred to a related person, or it may be lost entirely.

Information Reporting and Backup Withholding Applicable to U.S. Shareholders

In general, Brandywine will report to its U.S. Shareholders and the IRS the amount of distributions paid (unless the U.S. Shareholder is an exempt recipient) during each calendar year, and the amount of tax withheld, if any. Under the backup withholding rules, a U.S. Shareholder may be subject to backup withholding at the rate of 24% (and 28% for tax years beginning on or before December 31, 2017) with respect to distributions paid unless such U.S. Shareholder (a) comes within certain exempt categories and, when required, demonstrates this fact, or (b) provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding and otherwise complies with applicable requirements of the backup withholding rules. A U.S. Shareholder that does not provide us with their correct taxpayer identification number may also be subject to penalties imposed by the IRS. In addition, we may be required to withhold a portion of capital gain distributions to any U.S. Shareholder who fail to certify their non-foreign status to Brandywine. See "-Taxation of Non-U.S. Shareholders." Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against the shareholder's income tax liability, provided the required information is furnished to the IRS.

Tax Rates Applicable to Individual Shareholders under the TCJA

Long-term capital gains (i.e., generally capital gains with respect to assets held for more than one year) and "qualified dividends" received by an individual generally are subject to federal income tax at a maximum rate of 20%. Short-term capital gains (i.e., generally capital gains with respect to assets held for one year or less) generally are subject to federal income tax at ordinary income rates. Because we are not generally subject to federal income tax on the portion of our REIT taxable income or capital gains distributed to our shareholders, our dividends generally are not eligible for the 20% maximum tax rate on qualified dividends. Instead, our ordinary dividends generally are taxed at the higher tax rates applicable to ordinary income, the maximum rate of which is 37% for tax years beginning after December 31, 2017 (the rate was 39.6% for tax years beginning before that date) and before January 1, 2026. However, for taxable years beginning prior to January 1, 2026, individual shareholders are generally allowed to deduct 20% of the aggregate amount of ordinary dividends distributed by us, subject to certain limitations, which would reduce the maximum marginal effective tax rate for individuals on the receipt of such ordinary dividends to 29.6%. The 20% maximum tax rate for long-term capital gains and qualified dividends generally applies to:

- your long-term capital gains, if any, recognized on the disposition of our shares;
- our distributions designated as long-term capital gain dividends (except to the extent attributable to real estate depreciation, in which case such distributions are subject to a 25% tax rate to such extent);
- our dividends attributable to dividends received by us from non-REIT corporations, such as taxable REIT subsidiaries; and
- our dividends to the extent attributable to income upon which we have paid corporate income tax (e.g., to the extent that we distribute less than 100% of our taxable income).

Taxation of Tax-Exempt Shareholders

U.S. tax-exempt entities, including qualified employee pension and profit sharing trusts and individual retirement accounts, generally are exempt from U.S. federal income taxation. However, they are subject to taxation on their unrelated business taxable income ("**UBTI**"). Distributions by us to a shareholder that is a tax-exempt entity should generally not constitute UBTI, as defined in Section 512(a) of the Code provided that the tax-exempt entity has not financed the acquisition of its shares with “acquisition indebtedness” within the meaning of the Code and the shares are not otherwise used in an unrelated trade or business of the tax-exempt entity. Tax-exempt U.S. Shareholders that are social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts, and qualified group legal services plans exempt from U.S. federal income taxation under sections 501(c)(7), (c)(9), (c)(17) and (c)(20) of the Code, respectively, are subject to different UBTI rules, which generally will require them to characterize distributions from us as UBTI.

In certain circumstances, a pension trust (1) that is described in Section 401(a) of the Code, (2) is tax exempt under section 501(a) of the Code and (3) that owns more than 10% of our shares could be required to treat a percentage of the dividends from us as UBTI if we are a “pension-held REIT.” We will not be a pension-held REIT unless (1) either (A) one pension trust owns more than 25% of the value of our shares or (B) a group of pension trusts, each individually holding more than 10% of the value of our shares, collectively owns more than 50% of such shares and (2) we would not have qualified as a REIT but for the fact that Section 856(h)(3) of the Code provides that shares owned by such trusts shall be treated, for purposes of the requirement that not more than 50% of the value of the outstanding shares of a REIT is owned, directly or indirectly, by five or fewer “individuals” (as defined in the Code to include certain entities), as owned by beneficiaries of the trust rather than the trust itself. Certain restrictions on ownership and transfer of our shares should generally prevent a tax-exempt entity from owning more than 10% of the value of our shares, or us from becoming a pension-held REIT.

Tax-exempt U.S. Shareholders are urged to consult their tax advisors regarding the U.S. federal, state, local and foreign tax consequences of the acquisition, ownership and disposition of our shares.

Taxation of Non-U.S. Shareholders

The rules governing U.S. federal income taxation of non-U.S. Shareholders are complex and no attempt is made herein to provide more than a summary of such rules. Prospective non-U.S. Shareholders should consult with their own tax advisors to determine the impact of U.S. federal, state and local income and estate tax laws with regard to an investment in our shares, including any reporting requirements.

Ordinary Dividends

The portion of Ordinary Dividends received by non-U.S. Shareholders that are not attributable to gain from sales or exchanges by us of United States real property interests and which are not effectively connected with a U.S. trade or business of the non-U.S. Shareholder generally will be subject to a withholding tax equal to 30% of the gross amount of the distribution unless an applicable tax treaty reduces or eliminates that tax. Under some treaties, however, the lower rates generally applicable to dividends do not apply to dividends from REITs. We intend to withhold United States income tax at the rate of 30% on the gross amount of any such Ordinary Dividends paid to a non-U.S. Shareholder unless (1) a lower treaty rate applies and the non-U.S. Shareholder files with us a properly completed IRS Form W-8BEN or W-8BEN-E (or other applicable form) claiming the benefits of the lower treaty rate or (2) the non-U.S. Shareholder files with us an IRS Form W-8ECI claiming that the distribution is effectively connected with a U.S. trade or business.

In general, non-U.S. Shareholders will not be considered to be engaged in a U.S. trade or business solely as a result of their ownership of our shares. If income from the investment in our shares is treated as effectively connected with the non-U.S. Shareholder’s conduct of a United States trade or business, the non-U.S. Shareholder generally will be subject to a tax at graduated rates, in the same manner as U.S. Shareholders are taxed with respect to such distributions (and may also be subject to the 30% branch profits tax in the case of a non-U.S. Shareholder that is a foreign corporation).

Non-Dividend Distributions

Unless our shares constitute a U.S. real property interest (“**USRPI**”), any Non-Dividend Distributions will not be taxable to a non-U.S. Shareholder to the extent that such distributions do not exceed the adjusted basis of the shareholder’s shares, but rather will reduce the adjusted basis of the shareholder in such shares. To the extent that Non-Dividend Distributions exceed the adjusted basis of a non-U.S. Shareholder’s shares, such distributions will give rise to tax liability if the non-U.S. Shareholder would otherwise be subject to tax on any gain from the sale or disposition of its shares, as described below (See "-Taxation of Non-U.S. Shareholders-Dispositions of our Shares"). If it cannot be determined at the time a distribution is made whether or not such distribution will be in excess of current and accumulated earnings and profits, the distributions will be subject to withholding at the same rate as Ordinary Dividends. Because we generally cannot determine at the time we make a distribution whether or not the distribution will exceed our current and accumulated earnings and profits, we normally will withhold tax on the entire amount of any distribution at the same rate as we would withhold on Ordinary Dividends. However, amounts thus withheld are refundable to the non-U.S. Shareholder if it is subsequently determined that such distribution was, in fact, in excess of our current and accumulated earnings and profits.

If our shares constitute a USRPI, as described below (See "-Taxation of Non-U.S. Shareholders-Dispositions of our Shares"), Non-Dividend Distributions by us in excess of the non-U.S. Shareholder's adjusted tax basis in our shares will be taxed under the Foreign Investment in Real Property Tax Act of 1980 ("**FIRPTA**") at the rate of tax, including any applicable capital gains rates, that would apply to a U.S. Shareholder of the same type (*e.g.*, an individual or a corporation, as the case may be), and the collection of the tax will be enforced by a refundable withholding at a rate of 15% (increased from 10% effective February 17, 2016) of the Non-Dividend Distribution.

Our shares will not be treated as a USRPI when held, directly or indirectly, by a "qualified shareholder" and, therefore, FIRPTA will not apply to such shares. However, certain investors in a qualified shareholder that owns more than 10% of our shares (directly or indirectly) that are not themselves qualified shareholders may be subject to FIRPTA withholding. A "qualified shareholder" is a foreign entity that (A)(i) is eligible for the benefits of a comprehensive income tax treaty with the United States that includes an exchange of information program and the principal class of interest of which is listed and regularly traded on one or more recognized stock exchanges (as defined in such comprehensive income tax treaty) or (ii) is a foreign partnership that is created or organized under foreign law as a limited partnership in a jurisdiction that has an agreement for the exchange of information with respect to taxes with the United States and has a class of limited partnership units which is regularly traded on the New York Stock Exchange or Nasdaq Stock Market and the value of such class of limited partnership units is greater than 50% of the value of all of the partnership units of the foreign partnership, (B) is a qualified collective investment vehicle and (C) maintains records on the identity of each person who, at any time during the foreign person's taxable year, holds directly 5% or more of the class of interest described in (A)(i) or (ii). A "qualified collective investment vehicle" is a foreign person that (x) under the comprehensive income tax treaty described in (A)(i) or (ii) of the prior sentence would be eligible for a reduced rate of withholding with respect to dividends paid by a REIT even if such person owned more than 10% of the REIT, (y) is a publicly traded partnership that is a withholding foreign partnership and would treated as a United States real property holding corporation if it were a United States corporation or (iii) which is designated as a qualified collective investment vehicle by the Secretary of the Treasury and is either (A) fiscally transparent or (B) required to include dividends in its gross income but is entitled to a deduction for distributions to its equity investors. Additionally, qualified foreign pension funds will not be subject to FIRPTA withholding. The rules concerning qualified shareholders and qualified foreign pension funds are complex and investors who believe they may be qualified shareholders or qualified foreign pension funds should consult with their own tax advisors to find out if these rules are applicable to them.

Capital Gain Distributions

Except as discussed below with respect to 10% or less holders of regularly traded classes of shares, distributions that are attributable to gain from sales or exchanges by us of United States real property interests will be taxed to a non-U.S. Shareholder under the provisions of FIRPTA. Under FIRPTA, distributions attributable to gain from sales of United States real property interests are taxed to a non-U.S. Shareholder as if such gain were effectively connected with a United States trade or business. Individuals who are non-U.S. Shareholders will be required to report such gain on a U.S. federal income tax return and such gain will be taxed at the normal capital gain rates applicable to U.S. individual shareholders (subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals). Also, distributions subject to FIRPTA may be subject to a 30% branch profits tax in the hands of a foreign corporate shareholder not entitled to treaty relief. Brandywine is required by applicable Treasury regulations to withhold 21% of any distribution that could be designated by us as a capital gains dividend. The amount is creditable against the non-U.S. Shareholder's U.S. tax liability.

However, distributions attributable to gain from sales or exchanges by us of United States real property interests are treated as ordinary dividends (not subject to the 21% withholding tax under FIRPTA) if the distribution is made to a non-U.S. Shareholder with respect to any class of shares which is "regularly traded" on an established securities market located in the United States and if the non-U.S. Shareholder did not own more than 10% of such class of shares at any time during the taxable year. Such distributions will generally be subject to a 30% U.S. withholding tax (subject to reduction under applicable treaty) and a non-U.S. Shareholder will not be required to report the distribution on a U.S. tax return. In addition, the branch profits tax will not apply to such distributions. See "-Taxation of Non-U.S. Shareholders-Ordinary Dividends."

Although the law is not clear on the matter, it appears that amounts we designate as undistributed capital gains in respect of the stock held by U.S. Shareholders generally should be treated with respect to non-U.S. Shareholders in the same manner as actual distributions by us of capital gain dividends. Under that approach, the non-U.S. Shareholders would be able to offset as a credit against their U.S. federal income tax liability resulting therefrom their proportionate share of the tax paid by us on the undistributed capital gains, and to receive from the IRS a refund to the extent that their proportionate share of this tax paid by us were to exceed their actual U.S. federal income tax liability. If we were to designate a portion of our net capital gain as undistributed capital gain, a non-U.S. Shareholder is urged to consult its tax advisor regarding the taxation of such undistributed capital gain.

Dividends Paid in Common Shares

We are allowed to satisfy the REIT distribution requirements with respect to certain taxable years by distributing up to 90% of our dividends in the form of common shares rather than cash. In the event that we pay a portion of a dividend in common shares, we may be required to withhold U.S. tax with respect to such dividend, including in respect of all or a portion of such dividend that is payable in common shares.

Dispositions of Our Shares

Unless our shares constitutes a USRPI, gain recognized by a non-U.S. Shareholder upon a sale of shares generally will not be taxed under FIRPTA. Gain not subject to FIRPTA will nonetheless be taxable in the United States to a non-U.S. Shareholder if (1) investment in the shares is effectively connected with the non-U.S. Shareholder's United States trade or business, in which case the non-U.S. Shareholder will be subject to the same treatment as U.S. Shareholders with respect to such gain or (2) the non-U.S. Shareholder is a nonresident alien individual who was present in the United States for 183 days or more during the taxable year, in which case the nonresident alien individual will be subject to a 30% tax on the individual's capital gains.

Our shares will not be treated as a USRPI if Brandywine is a "domestically controlled REIT" (also referred to in the applicable Treasury regulations as a "domestically controlled qualified investment entity"), defined generally as a REIT in which at all times during a specified testing period less than 50% in value of the shares of beneficial interest was held directly or indirectly by foreign persons. It is currently anticipated that we will be a "domestically controlled REIT," and therefore the sale of shares by a non-U.S. Shareholder will not be subject to taxation under FIRPTA. However, because the shares may be traded, we cannot be sure that we will continue to be a "domestically controlled REIT." Further, even if we are a domestically controlled REIT, pursuant to "wash sale" rules under FIRPTA, a non-U.S. Shareholder may incur tax under FIRPTA to the extent such non-U.S. Shareholder disposes of our shares within a certain period prior to a capital gain distribution and directly or indirectly (including through certain affiliates) reacquires our shares within certain prescribed periods.

However, a non-U.S. shareholder will not incur tax under FIRPTA on a sale of common or preferred shares if (1) our preferred shares or common shares are "regularly traded" on an established securities market within the meaning of applicable Treasury regulations and (2) the non-U.S. Shareholder did not actually, or constructively under specified attribution rules under the Code, own more than 10% of our preferred shares or common shares at any time during the shorter of the five-year period preceding the disposition or the holder's holding period.

If gain on the sale of our shares is subject to taxation under FIRPTA, the non-U.S. Shareholder will be subject to the same treatment as a U.S. Shareholder with respect to such gain, subject to applicable alternative minimum tax and a special alternative minimum tax in the case of non-resident alien individuals, and the purchaser of the shares could be required to withhold 15% (increased from 10% effective February 17, 2016) of the purchase price and remit such amount to the IRS.

Information Reporting and Backup Withholding Applicable to Non-U.S. Shareholders

We must report annually to the IRS and to each non-U.S. Shareholder the amount of dividends paid to such holder and the tax withheld with respect to such dividends, regardless of whether withholding was required. Copies of the information returns reporting such dividends and withholding may also be made available to the tax authorities in the country in which the non-U.S. Shareholder resides under the provisions of an applicable income tax treaty.

Payments of dividends or of proceeds from the disposition of stock made to a non-U.S. Shareholder may be subject to information reporting and backup withholding unless such holder establishes an exemption, for example, by properly certifying its non-United States status on an IRS Form W-8BEN or another appropriate version of IRS Form W-8. Notwithstanding the foregoing, backup withholding may apply if either we or our paying agent has actual knowledge, or reason to know, that a non-U.S. Shareholder is a United States person.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against the shareholder's income tax liability, provided the required information is furnished to the IRS.

Additional Withholding Requirements under "FATCA"

Under Sections 1471 through 1474 of the Code (such Sections commonly referred to as "FATCA"), payments of dividends to a non-U.S. Shareholder will be subject to 30% withholding tax if the non-U.S. Shareholder fails to provide the withholding agent with documentation sufficient to show that it is compliant with the FATCA or otherwise exempt from withholding under FATCA. Generally, such documentation is provided on an executed IRS Form W-8BEN or IRS Form W-8BEN-E, as applicable. If a dividend payment is both subject to withholding under FATCA and subject to withholding tax discussed above, the withholding under FATCA may be credited against, and therefore reduce, such other withholding tax. Based upon proposed Treasury regulations, which may be relied upon by taxpayers until the final Treasury regulations are issued, the FATCA withholding that was to be effective on January 1, 2019 with respect to payments of the gross proceeds no longer applies. Non- U.S. Shareholders should consult their tax advisors to determine the applicability of this legislation in light of their individual circumstances.

State, Local and Foreign Tax Consequences

Brandywine, the Operating Partnership, the Subsidiary Partnerships and Brandywine's shareholders may be subject to state, local and foreign taxation in various jurisdictions, including those in which it or they transact business or reside. The state, local and foreign tax treatment of Brandywine, the Operating Partnership, the Subsidiary Partnerships and Brandywine's shareholders may not conform to the U.S. federal income tax consequences discussed above. Any foreign taxes incurred by us would not pass through to shareholders as a credit against their U.S. federal income tax liability. Prospective shareholders should consult their own tax advisors regarding the effect of state, local and foreign tax laws on an investment in our shares.

Legislative or Other Actions Affecting REITs

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department. No assurance can be given as to whether, when, or in what form, the U.S. federal income tax laws applicable to us and our shareholders may be enacted. Changes to the U.S. federal tax laws and interpretations of U.S. federal tax laws could adversely affect an investment in our shares.

Taxation of Holders of Debt Securities

This section describes the material U.S. federal income tax consequences of owning the debt securities that Brandywine Realty Trust or Brandywine Operating Partnership may offer. This summary is for general information only and is not tax advice. The tax consequences of owning any particular issue of debt securities will be discussed in the applicable prospectus supplement.

As used herein, a "U.S. Holder" means a beneficial owner of our debt securities, who is, for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if it (a) is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or (b) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

As used herein, a "non-U.S. Holder" means a beneficial owner of our debt securities that is not a "U.S. Holder," and that is not a partnership (or other entity treated as a partnership for U.S. federal income tax purposes).

If a partnership holds debt securities, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding debt securities, you should consult your tax advisor.

Pursuant to the TCJA, for taxable years beginning after December 31, 2017 (and for taxable years beginning after December 31, 2018 for instruments issued with original issue discount ("**OID**")), an accrual method taxpayer that reports revenues on an applicable financial statement generally must recognize income for U.S. federal income tax purposes no later than the taxable year in which such income is taken into account as revenue in an applicable financial statement of the taxpayer. To the extent this rule is inconsistent with the rules described in the subsequent discussion, this rule supersedes such discussion. Thus, this rule could potentially require such a taxpayer to recognize income for U.S. federal income tax purposes with respect to the debt securities prior to the time such income would be recognized pursuant to the rules described in the subsequent discussion. The Treasury Department released proposed Treasury regulations that would exclude from this rule any item of gross income for which a taxpayer uses a special method of accounting required by certain sections of the Internal Revenue Code, including income subject to the timing rules for OID and *de minimis* OID, income under the contingent payment debt instrument rules, income under the variable rate debt instrument rules, and market discount (including *de minimis* market discount). The proposed Treasury regulations will be effective for taxable years beginning after the date the final Treasury regulations are published. In the interim, taxpayers may rely on the proposed Treasury regulations in certain cases. You should consult your tax advisors regarding the potential applicability of these rules to your investment in the debt securities.

Taxation of U.S. Holders

Interest

The stated interest on debt securities generally will be taxable to a U.S. Holder as ordinary income at the time that it is paid or accrued, in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes.

Original Issue Discount

If you own debt securities issued with OID, you will be subject to special tax accounting rules, as described in greater detail below. In that case, you should be aware that you generally must include OID in gross income (as ordinary income) in advance of the receipt of cash attributable to that income, regardless of your method of accounting for U.S. federal income tax purposes. However, you generally will not be required to include separately in income cash payments received on the debt securities, even if denominated as interest, to the extent those payments do not constitute "qualified stated interest," as defined below. If we determine that a particular debt security will be an OID debt security, we will disclose that determination in the prospectus supplement relating to those debt securities.

A debt security with an "issue price" that is less than the "stated redemption price at maturity" (generally the sum of all payments to be made on the debt security other than "qualified stated interest") generally will be issued with OID in an amount equal to that difference if that difference is at least 0.25% of the stated redemption price at maturity multiplied by the number of complete years to maturity of the debt security. The "issue price" of each debt security in a particular offering generally will be the first price at which a substantial amount of that particular offering is sold to the public. The term "qualified stated interest" means stated interest that is unconditionally payable in cash or in property, other than debt instruments of the issuer, and the interest to be paid meets all of the following conditions:

- it is payable at least once per year;
- it is payable over the entire term of the debt security; and
- it is payable at a single fixed rate or, subject to certain conditions, based on one or more interest indices.

If we determine that particular debt securities of a series will bear interest that is not qualified stated interest, we will disclose that determination in the prospectus supplement relating to those debt securities.

If you own a debt security issued with "*de minimis*" OID, which is discount that is not OID because it is less than 0.25% of the stated redemption price at maturity multiplied by the number of complete years to maturity of the debt security, you generally must include the *de minimis* OID in income at the time principal payments on the debt securities are made in proportion to the amount paid. Any amount of *de minimis* OID that you have included in income will be treated as capital gain.

Certain of the debt securities may contain provisions permitting them to be redeemed prior to their stated maturity at our option and/or at your option. OID debt securities containing those features may be subject to rules that differ from the general rules discussed herein. If you are considering the purchase of OID debt securities with those features, you should carefully examine the applicable prospectus supplement and should consult your own tax advisor with respect to those features because the tax consequences to you with respect to OID will depend, in part, on the particular terms and features of the debt securities.

If you own OID debt securities with a maturity upon issuance of more than one year you generally must include OID in income in advance of the receipt of some or all of the related cash payments using the "constant yield method" described in the following paragraphs. This method takes into account the compounding of interest. If you own OID debt securities with a maturity upon issuance of more than five years, certain rules that apply to applicable high yield discount obligations may apply to the debt securities, in which case you should carefully examine the applicable prospectus and should consult your own tax advisor regarding the U.S. federal income tax consequences to you of holding and disposing of those debt securities.

The amount of OID that you must include in income if you are the initial holder of an OID debt security is the sum of the "daily portions" of OID with respect to the debt security for each day during the taxable year or portion of the taxable year in which you held that debt security ("**accrued OID**"). The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. The "accrual period" for an OID debt security may be of any length and may vary in length over the term of the debt security, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on the first day or the final day of an accrual period. The amount of OID allocable to any accrual period is an amount equal to the excess, if any, of:

- the debt security's "adjusted issue price" at the beginning of the accrual period multiplied by its yield to maturity, determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period, over
- the aggregate of all qualified stated interest allocable to the accrual period.

OID allocable to a final accrual period is the difference between the amount payable at maturity, other than a payment of qualified stated interest, and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. The "adjusted issue price" of a debt security at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period, determined without regard to the amortization of any acquisition or bond premium, as described below, and reduced by any payments made on the debt security (other than qualified stated interest) on or before the first day of the accrual period. Under these rules, you will generally have to include in income increasingly greater amounts of OID in successive accrual periods. We are required to provide information returns stating the amount of OID accrued on debt securities held by persons of record other than corporations and other exempt holders.

Floating rate debt securities are subject to special OID rules. In the case of an OID debt security that is a floating rate debt security, both the "yield to maturity" and "qualified stated interest" will be determined solely for purposes of calculating the accrual of OID as though the debt security will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to interest payments on the debt security on its date of issue or, in the case of certain floating rate debt securities, the rate that reflects the yield to maturity that is reasonably expected for the debt security. Additional rules may apply if either:

- the interest on a floating rate debt security is based on more than one interest index; or
- the principal amount of the debt security is indexed in any manner.

This discussion does not address the tax rules applicable to debt securities with an indexed principal amount. If you are considering the purchase of floating rate OID debt securities or securities with indexed principal amounts, you should carefully examine the prospectus supplement relating to those debt securities, and you should consult your own tax advisor regarding the U.S. federal income tax consequences to you of holding and disposing of those debt securities.

You may elect to treat all interest on any debt securities as OID and calculate the amount includible in gross income under the constant yield method described above. For purposes of this election, interest includes stated interest, acquisition discount, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortizable bond premium or acquisition premium. You must make this election for the taxable year in which you acquired the debt security, and you may not revoke the election without the consent of the IRS. You should consult with your own tax advisor about this election.

Market Discount

If you purchase debt securities, other than OID debt securities, for an amount that is less than their stated redemption price at maturity, or, in the case of OID debt securities, their adjusted issue price, the amount of the difference will be treated as "market discount" for U.S. federal income tax purposes, unless that difference is less than a specified *de minimis* amount. Under the market discount rules, you will be required to treat any principal payment on, or any gain on the sale, exchange, retirement, redemption or other disposition of, the debt securities as ordinary income to the extent of the market discount that you have not previously included in income and are treated as having accrued on the debt securities at the time of their payment or disposition. In addition, you may be required to defer, until the maturity of the debt securities or their earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness attributable to the debt securities. You may elect, on a debt security-by-debt security basis, to deduct the deferred interest expense in a tax year prior to the year of disposition. You should consult your own tax advisor before making this election. Any market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the debt securities, unless you elect to accrue on a constant interest method. You may elect to include market discount in income currently as it accrues, on either a ratable or constant interest method, in which case the rule described above regarding deferral of interest deductions will not apply. Your election to include market discount in income currently, once made, applies to all market discount obligations acquired by you on or after the first taxable year to which your election applies and may not be revoked without the consent of the IRS. You should consult your own tax advisor before making this election.

Acquisition Premium and Amortizable Bond Premium

If you purchase OID debt securities for an amount that is greater than their adjusted issue price but equal to or less than the sum of all amounts payable on the debt securities after the purchase date other than payments of qualified stated interest, you will be considered to have purchased those debt securities at an "acquisition premium." Under the acquisition premium rules, the amount of OID that you must include in gross income with respect to those debt securities for any taxable year will be reduced by the portion of the acquisition premium properly allocable to that year.

If you purchase debt securities (including OID debt securities) for an amount in excess of the sum of all amounts payable on those debt securities after the purchase date other than qualified stated interest, you will be considered to have purchased those debt securities at a "premium" and, if they are OID debt securities, you will not be required to include any OID in income. You generally may elect to amortize the premium over the remaining term of those debt securities on a constant yield method as an offset to interest when includible in income under your regular accounting method. In the case of debt securities that provide for alternative payment schedules, bond premium is calculated by assuming that (a) you will exercise or not exercise options in a manner that maximizes your yield and (b) we will exercise or not exercise options in a manner that minimizes your yield (except that we will be assumed to exercise call options in a manner that maximizes your yield). If you do not elect to amortize bond premium, that premium will decrease the gain or increase the loss you would otherwise recognize on disposition of the debt security. Your election to amortize premium on a constant yield method will also apply to all taxable debt obligations held or subsequently acquired by you on or after the first day of the first taxable year to which the election applies. You may not revoke the election without the consent of the IRS. You should consult your own tax advisor before making this election.

Sale, Exchange or Retirement of Debt Securities

A U.S. Holder of debt securities will recognize gain or loss upon the sale, exchange, retirement, redemption or other taxable disposition of such debt securities in an amount equal to the difference between:

- the amount of cash and the fair market value of other property received in exchange for such debt securities, other than amounts attributable to accrued but unpaid qualified stated interest, which will be subject to tax as ordinary income to the extent not previously included in income; and
- the U.S. Holder's adjusted tax basis in such debt securities.

A U.S. Holder's adjusted tax basis in a debt security generally will equal the cost of the debt security to such holder (A) increased by the amount of OID or accrued market discount (if any) previously included in income by such holder and (B) decreased by (i) the amount of any payments other than qualified stated interest payments and (ii) any amortizable bond premium taken by such holder.

Any gain or loss recognized will generally be capital gain or loss, and such capital gain or loss will generally be long-term capital gain or loss if the debt security has been held by the U.S. Holder for more than one year. Long-term capital gain for non-corporate taxpayers is subject to reduced rates of U.S. federal income taxation (currently, a 20% maximum federal rate but see the discussion above "Taxation of Shareholders-Taxation of Taxable U.S. Shareholders-Tax Rates Applicable to Individual Shareholders under the TCJA"). The deductibility of capital losses is subject to certain limitations.

Medicare Tax on Investment Income

Certain U.S. Holders who are individuals, estates or trusts and whose income exceeds certain thresholds must pay a 3.8% Medicare tax on "net investment income" which includes, among other things, dividends on shares, interest on debt securities and capital gains from the sale or other disposition of shares or debt securities, subject to certain exceptions. Prospective investors should consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of our debt securities.

Taxation of Tax-Exempt Holders of Debt Securities

Interest income accrued on the debt securities should not constitute unrelated business taxable income to a tax-exempt holder. As a result, a tax-exempt holder generally should not be subject to U.S. federal income tax on the interest income accruing on our debt securities. Similarly, any gain recognized by the tax-exempt holder in connection with a sale or other disposition of a debt security generally should not be unrelated business taxable income. However, if a tax-exempt holder were to finance its acquisition of the debt security with debt, a portion of the interest income and gain attributable to the debt security would constitute unrelated business taxable income pursuant to the “debt-financed property” rules. Tax-exempt holders should consult their own tax advisors to determine the potential tax consequences of an investment in our debt securities.

Taxation of Non-U.S. Holders of Debt Securities

The rules governing the U.S. federal income taxation of a non-U.S. Holder are complex and no attempt will be made herein to provide more than a summary of such rules. Non-U.S. Holders should consult their tax advisors to determine the effect of U.S. federal, state, local and foreign tax laws, as well as tax treaties, with regard to an investment in the debt securities.

Interest

Subject to the discussions of backup withholding and “FATCA” below, interest (including OID) paid to a non-U.S. Holder of debt securities will not be subject to U.S. federal withholding tax under the “portfolio interest exemption,” provided that:

- interest paid on debt securities is not effectively connected with a non-U.S. Holder’s conduct of a trade or business in the United States;
- the non-U.S. Holder does not actually or constructively own 10% or more of the capital or profits interest in the Operating Partnership (in the case of debt issued by the Operating Partnership), or 10% or more of the total combined voting power of all classes of stock of Brandywine entitled to vote (in the case of debt issued by Brandywine);
- the non-U.S. Holder is not
    - a controlled foreign corporation that is related to the Operating Partnership or Brandywine, as applicable, or
    - a bank that receives such interest on an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business; and
- the beneficial owner of debt securities provides a certification, which is generally made on an IRS Form W-8BEN or W-8BEN-E, as applicable, or a suitable substitute form and signed under penalties of perjury, that it is not a United States person.

A payment of interest (including OID) to a non-U.S. Holder that does not qualify for the portfolio interest exemption and that is not effectively connected to a United States trade or business will be subject to U.S. federal withholding tax at a rate of 30%, unless a United States income tax treaty applies to reduce or eliminate withholding.

A non-U.S. Holder will generally be subject to tax in the same manner as a U.S. Holder with respect to payments of interest (including OID) if such payments are effectively connected with the conduct of a trade or business by the non-U.S. Holder in the United States and, if an applicable tax treaty requires, such interest is attributable to a United States permanent establishment maintained by the non-U.S. Holder. In some circumstances, such effectively connected income received by a non-U.S. Holder which is a corporation may be subject to an additional "branch profits tax" at a 30% base rate or, if applicable, a lower treaty rate.

To claim the benefit of a lower treaty rate or to claim exemption from withholding because the income is effectively connected with a United States trade or business, the non-U.S. Holder must provide a properly executed IRS Form W-8BEN or W-8BEN-E (in the case of a treaty), IRS Form W-8ECI (in the case of effectively connected income) or a suitable substitute form, as applicable, prior to the payment of interest. Such certificate must contain, among other information, the name and address of the non-U.S. Holder, as well as applicable U.S. and foreign tax identification numbers.

Non-U.S. Holders are urged to consult their own tax advisors regarding applicable income tax treaties, which may provide different rules.

Sale, Exchange or Retirement of Debt Securities

Subject to the discussions of backup withholding and "FATCA" below, a non-U.S. Holder generally will not be subject to U.S. federal income tax or withholding tax on gain realized on the sale, exchange, retirement, redemption or other taxable disposition of debt securities unless:

- the non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met; or
- the gain is effectively connected with the conduct of a trade or business of the non-U.S. Holder in the United States and, if an applicable tax treaty requires, such gain is attributable to a United States permanent establishment maintained by such non-U.S. Holder.

A non-U.S. Holder will generally be subject to tax in the same manner as a U.S. Holder with respect to gain realized on the sale, exchange, retirement, redemption or other taxable disposition of debt securities if such gain is effectively connected with the conduct of a trade or business by the non-U.S. Holder in the United States and, if an applicable tax treaty requires, such gain is attributable to a United States permanent establishment maintained by the non-U.S. Holder. In certain circumstances, a non-U.S. Holder that is a corporation may be subject to an additional "branch profits tax" at a 30% rate or, if applicable, a lower treaty rate on such income.

U.S. Federal Estate Tax

If you are an individual, your estate will not be subject to U.S. federal estate tax on the debt securities beneficially owned by you at the time of your death, provided that any payment to you on the debt securities, including OID, would be eligible for exemption from the 30% U.S. federal withholding tax under the "portfolio interest exemption" described above, without regard to the certification requirement.

Information Reporting and Backup Withholding Applicable to Holders of Debt Securities

U.S. Holders

Certain U.S. Holders may be subject to information reporting requirements on payments of interest (including OID) on debt securities and payments of the proceeds of the sale, exchange, retirement, redemption or other taxable disposition of debt securities, and backup withholding, currently imposed at a rate of 24%, may apply to such payments if the U.S. Holder:

- fails to furnish an accurate taxpayer identification number, or TIN, to the payor in the manner required;
- is notified by the IRS that it has failed to properly report payments of interest or dividends; or
- under certain circumstances, fails to certify, under penalties of perjury, that it has furnished a correct TIN and that it has not been notified by the IRS that it is subject to backup withholding.

Non-U.S. Holders

A non-U.S. Holder is generally not subject to backup withholding with respect to payments of interest (including OID) on debt securities if it certifies as to its status as a non-U.S. Holder under penalties of perjury or if it otherwise establishes an exemption, provided that the applicable withholding agent does not have actual knowledge or reason to know that the non-U.S. Holder is a United States person or that the conditions of any other exemptions are not, in fact, satisfied. Information reporting requirements, however, will generally apply to payments of interest (including OID) to non-U.S. Holders. Copies of these information returns may also be made available under the provisions of a specific treaty or agreement to the tax authorities of the country in which the non-U.S. Holder resides.

The payment of the proceeds from the disposition of debt securities to or through the United States office of any broker, United States or foreign, will be subject to information reporting and possible backup withholding unless the owner certifies as to its non-United States status under penalties of perjury or otherwise establishes an exemption, provided that the broker does not have actual knowledge or reason to know that the non-U.S. Holder is a United States person or that the conditions of any other exemption are not, in fact, satisfied.

The payment of the proceeds from the disposition of debt securities to or through a non-United States office of a non-United States broker that is not a “United States related person” generally will not be subject to information reporting or backup withholding. For this purpose, a “United States related person” includes:

- a controlled foreign corporation for U.S. federal income tax purposes;
- a foreign person 50% or more of whose gross income from all sources for the three-year period ending with the close of its taxable year preceding the payment, or for such part of the period that the broker has been in existence, is derived from activities that are effectively connected with the conduct of a United States trade or business; or
- a foreign partnership that at any time during the partnership’s taxable year is either engaged in the conduct of a trade or business in the United States or of which 50% or more of its income or capital interests are held by United States persons.

In the case of the payment of proceeds from the disposition of debt securities to or through a non-United States office of a broker that is either a United States person or a United States related person, the payment may be subject to information reporting unless the broker has documentary evidence in its files that the owner is a non-U.S. Holder and the broker has no knowledge or reason to know to the contrary. Backup withholding will not apply to payments made through foreign offices of a broker that is a United States person or a United States related person, absent actual knowledge that the payee is a United States person.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a holder will be allowed as a refund or a credit against such holder’s U.S. federal income tax liability, provided that the requisite procedures are followed.

Holders of debt securities are urged to consult their tax advisors regarding their qualification for exemption from backup withholding and the procedure for obtaining such an exemption, if applicable.

Additional Withholding Requirements under “FATCA”

Under Sections 1471 through 1474 of the Code (such Sections commonly referred to as “FATCA”), payments of interest (including OID) to a non-U.S. Holder may be subject to 30% withholding tax if the non-U.S. Holder fails to provide the withholding agent with documentation sufficient to show that it is compliant with the FATCA. Generally, such documentation is provided on an executed IRS Form W-8BEN or IRS Form W-8BEN-E, as applicable. If interest is subject to 30% tax under FATCA, it will not be subject to the 30% tax described above under “-Taxation of Non-U.S. Holders of Debt Securities-Interest.” Based upon proposed Treasury regulations, which may be relied upon by taxpayers until the final Treasury regulations are issued, the FATCA withholding that was to be effective on January 1, 2019 with respect to payments of the gross proceeds from the disposition of U.S. stock or securities no longer applies. Non-U.S. Holders should consult their tax advisors to determine the applicability of this legislation in light of their individual circumstances, including the possible application of an intergovernmental agreement between the United States and their country of residence that might provide for different rules.

(Back To Top)