Raw Transcript

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DCT Industrial Trust, Inc. (DCT)

Q4 2013 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the DCT Industrial Fourth Quarter and Full Year 2013 Earnings Call and Webcast. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

At this time, I would now like to turn the conference over to Ms. Melissa Sachs, Vice President of Corporate Communications and Investor Relations. Please go ahead.

Melissa Sachs Fitzpatrick

Thanks, Ed. Hello, everyone, and thank you for joining DCT Industrial Trust fourth quarter and full year 2013 earnings call. Today's call will be led by Phil Hawkins, our Chief Executive Officer; and Matt Murphy, our Chief Financial Officer, who will provide details on the quarter's results and our 2014 guidance. Additionally, Mike Ruen, our Managing Director for the East will be available to answer questions about the markets and our real estate activities.

Before I turn the call over to Phil, I would like to remind everyone that management's remarks on today's c all will include forward-looking statements within the meaning of federal securities laws. This includes, without limitations, statements regarding projections, plans, or future expectations.

Actual results may differ materially from those described in th e forward-looking statements and will be affected by a variety of risks, including those set forth in our earnings release and in our Form 10 -K filed with the SEC, as updated by our quarterly reports on Form 10-Q.

Additionally, on this conference call, we may refer to certain non-GAAP financial measures. Reconciliations of these non-GAAP financial measures are available in our supplemental, which can be found in the investor relations section of our website at dctindustrial.com.

And now, I will turn the call over to Phil.

Philip L. Hawkins

Thank you, Melissa. And good morning, everyone. The fourth quarter served as a strong finish to a productive and successful 2013 for the DCT.

Industrial leasing markets continue to improve across the U.S. with healthy net absorption in every one of our markets. In response to declining vacancies and supply that remains in check, rents are continuing to improve most notably face rents. For some time free rent has been coming down across our markets, but now we're starting to see a more broad based recovery in face rent as well.

Reflecting this positive operating environment, our market teams delivered another quarter of strong results. Highlights include, occupancy in our consolidated operating portfolio increase d by 50 basis points to 93.3%, higher than we expected going into the quarter. Excluding the impact of acquisitions and dispositions during the

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fourth quarter, occupancy would have been an additional 50 basis points higher, reflecting our general bias to b uy vacancy and sell occupancy. Rents spread increased a strong 15.5% on a GAAP basis and 5.1% on a cash basis.

While we continue to believe that GAAP rents are a more complete comparison of overall rental economics, it's still good to see cash spreads move in the positive territory. This metric will continue to move around based on the mix of rolling leases, but the overall trend should remain in a positive direction given the improving markets.

Turn over cost of a $1.33 per square foot continued their po sitive downward trend over the past several quarters, again reflecting an improving leasing environment. And leasing has started off the New Year strong with 1.6 million square feet executed in January, including all of the 500,000 square foot space in Col umbus that has been vacant for quite some time briging us to 100% leased in this market.

As a side note, market leasing activity in Columbus especially the Rickenbacker or southeast submarket where all of our assets are located has picked up significantly in recent months with southeast bulk warehouse new absorption of 1.5 million square feet in the fourth quarter, and 2.7 million for the year.

As a result, bulk warehouse vacancy in the southeast submarket declined from 11.5% a year ago to 7.0% at year-end, quite a remarkable turnaround. We're also busy in the fourth quarter on a capital deployment front, acquiring a little over a $150 million in 12 separate transactions located in seven different markets. All but two of these transactions and 80% of the square footage were sourced on an off-market basis, reinforcing the value of our market-based platform.

The average occupancy of the acquired assets was 83.6% with a 140 basis points difference between in place yields and expected stabilized yields. Shifting to development, in the Inland Empire, we completed the fully preleased 650,000 square foot Slover Logistics Center I and broke ground on a 928,000 square foot Rialto Logistics Center.

In Houston, we completed a lease for all of our 267,000 square foot Airtex Industrial Center and have two leases in active negotiations for 70% of at Beltway Tanner, a 133,000 square foot project expected to be completed this quarter. In South Florida, we are successful in acquiring a 36 acre parcel in Broward County on wh ich we expect to develop three buildings, totaling 567,000 square foot.

And lastly, we acquired a 6.4 acre site in the DFW Airport submarket of Dallas on which we expect to develop a 95,000 square foot building.

Given the healthy leasing markets, combined with the strength of our market-focused operating platform, I'm very optimistic about our business in 2014. Our teams are doing a great job at leasing space as well as sourcing acquisition and development opportunities that will generate attractive inter nal and external growth for DCT.

With that, let me turn the call over to Matt, who'll provide more color on the fourth quarter as well as our 2014 guidance.

Matthew T. Murphy

Thanks, Phil, and good morning everyone. Thank you all for joining us today. The fourth quarter of 2013 was strong for DCT, particularly with regard to continuing improvement in occupancy and other operating metrics. As Phil mentioned, our consolidated operating occupancy increased 50 basis points during the quarter to 93.3%, a little ahead of our projections.

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However on a same portfolio basis, that is excluding the impact of acquisitions and dispositions during the quarter, our occupancy would have been another 50 basis points higher at 93.8%. This progress combined with another strong recent quarter with over 3.5 million feet of leases, including almost 1.3 million square feet of new space, clearly demonstrate that the leasing markets and tenant demand remains strong. This new leasing, on top of retention of 83.4% for the quarter ensures that we enter 2014 on an excellent trajectory.

Our same-store results for the quarter was slightly ahead of plan, which allowed us to achieve the high-end of our guidance for the year with cash same-store NOI growth of 4.9% over 2012. For the fourth quarter, cash same-store NOI was up 1.6% versus the fourth quarter of 2012, while GAAP same-store NOI was down 0.9%.

Average occupancy in the fourth quarter same-store pool was up 10 basis points over 2012. The fourth quarter GAAP decline was caused predominantly by a 3.8% increase in expenses quarter-over-quarter.

In addition to the unusually low expenses in the fourth quarter of 2012 that I discussed both in last year's and last quarter's call, the next largest component of this expense growth a little over $300,000, with bad debt expense associated with our tenant delinquency on 500,000 square feet in Indianapolis. Absent to recovery of any amounts owed, this dispute will also negatively affect our first quarter 2014 same-store results by about the same dollar amount. After the first quarter, the comparisons will be on more of an apples-to-apples basis.

Sequentially, same-store results were strong for the quarter on a same group of assets. Fourth quarter net operating income increased 1.6% over the third quarter, driven by strong embedded red bumps, an increase in average occupancy of 10 basis points and more normalized expenses. We ended the quarter with occupancy 60 basis points higher than the average for the quarter, so once again our trajectory is excellent.

When you add it all up, we finished the fourth quarter of 2013 with funds from operations of $0.11 per share and $0.45 per share for the full year of 2013. At the top end of our initial guidance for the year and an increase of 7.1% over 2012.

Turning to capital funding. Our strategy of max funding deployment with a combination of dispositions and the proceeds from equity issuances was highly successful in 2013. We invested approximately $360 million on acquisitions during the year, and spent an additional $150 million funding development. The capital for these activities was generated by dispositions of $260 million plus 250 million in net proceeds from equity issuances, effectively balancing our sources and uses for the year.

In addition, as previously announced, we closed our inaugural bond offering in the fourth quarter, issuing $275 million of 10-year bonds, with a coupon of 4.5% and a yield to maturity of 4.62%. As I mentioned before, we are very pleased with the execution on this transaction, but more importantly, we're excited about the flexibility and liquidity, that access to this market can provide moving forward. All of these leaves our balance sheet stronger than ever, and with excellent optionality to execute on our business plan in 2014 and beyond.

Now, let me take you through some of the details of our initial guidance for 2014. We have initiated our 2014 FFO guidance with a range of $0.45 to $0.48 per diluted share. We have based the expectations of an economic backdrop of continued modest economic growth, which we believe will generate positive net absorption of industrial space at similar levels to 2013. More specifically, our guidance is based on the following assumptions.

Occupancy for the consolidated operating portfolio is expected to average between 93.5% and 94.5% for the year as has been the case for the last few years, we expect occupancy to decline a little at the beginning of the year, due to seasonal trends and the anticipated vacancy in Indianapolis. We expect occupancy will then build during the remainder of the year, ending somewhere between 94% and 95%.

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Same-store net operating income is expected to increase 3% to 4.5% on a cash basis, and 3.25% to 4.45% on a GAAP basis. Approximately 40% of this cash growth will be derived from existing contractual rent bumps. We expect to achieve average occupancy gains in our 53.4 million square foot same-store portfolio of between 75 basis points and 150 basis points.

Finally, we expect GAAP rent spreads to continue the positive trend that they have been on for the last 10 quarters, and believe their rent spreads will – cash rent spreads will continue to improve and moving to positive territory more and more frequently. It's important to keep in mind that the projected operating statistics do not take into account the potential impact of any acquisitions or dispositions during the year, but they do reflect a projected impact of our current development portfolio stabilizing and entering the operating portfolio.

It should also be noted that our same-store results do not contain development or redevelopment assets until they have been stabilized throughout both periods.

Shifting to capital deployment, our teams continue to uncover opportunities to deploy capital at attractive returns in the focus markets and target submarkets, which we believe will continue to perform well over time. Consequently, we've included in our guidance a $100 million to $200 million of acquisitions. These acquisitions will be a combination of stabilized assets and value-add opportunities, in a mix, which is likely to be similar to 2013.

Additionally, we are planning to start construction of between $100 million and $200 million of development projects in 2014. The majority of projects assume that land we currently own, however, we will continue to pursue land opportunities in markets where we have confidence, and fundamentals and leasing activity, in which we believe we can put into production quickly.

From a capital markets perspective, we plan to fund the deployment I've described with the proceeds from property dispositions, and where appropriate issuance of equity in a manner similar to 2013. We expect that the combination of investment and development and value-add acquisitions as well as the effective disposing of stabilized lower growth assets will cause a short-term dilution of approximately $0.01 to $0.02 per share in 2014.

In addition, our bond yield will be approximately $0.15 diluted to 2014 relative to 2013, at the 4.5 % interest rate of bonds were very attractive in and of itself is over 200 points greater than the interest rate on the mostly floating rate debt that was paid off with the proceeds.

We aggregated or issued the short-term debt in order to provide a use of proceeds for the bond transaction. Consequently, we have very little debt maturing in 2014, as our bond yield in part was used to refinance early significant 2014 maturity.

In summary, we believe the 2014 resembled 2013 in many respects. We expect market fundamentals, most importantly tenant demand will remain strong. We believe the supply will remain disciplined, as a positive present trends in rent growth will continue and even accelerate in many markets where the recovery started later.

So most importantly, we expect our market teams to continue to do an outstanding job, focusing on our customers and sourcing and executing on purulent real estate transactions that we'll continue to upgrade our portfolio and create value for our shareholders.

With that, I'll turn it back over to Ed for questions. Thank you.

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And that it looks that our first question comes from Michael Bilerman of Citi. Please go ahead.

Michael Bilerman Q

[indiscernible] tell a little bit more in terms of expected yield and whether you start talking to tenants yet?

A

You know, we just heard the last few words of your question, will you mind restating it.

Michael Bilerman Q

Yeah, no problem. Can you just talk about the large spec development you started in Inland Empire, in terms of expected yields and whether you guys have started talking to tenants yet?

A

A good tenant activity early, and so nothing [ph] imminent, but lots of interest in the project of that size in that market it's a strong market. We really haven't disclosed individual asset yields, development yields, but I can say to say in Southern California, we can develop for couple of 100 basis points over, where cap rates are and which is attractive. And then, cap rates right now are kind of in the high four's to five.

Michael Bilerman Q

Okay. Thanks. And then, just my next question is on maybe you guys make some more comment on the acquisition market, is there any large portfolios out there? And then also, what the competition is like for the value add assets that you guys are targeting?

A

Good question. Yeah, the market for acquisition remains as competitive as ever. Cap rates have not really haven't moved much, I think it's fair to say in primary markets not down nor up, up you might think because of interest rates recently had come up. But cap rates are pretty well flat, I'd say the spread between A and B market for A assets, through that – between primary markets and secondary markets for A assets has narrowed a little bit, so more capital considering secondary markets, we sold the building in Cincinnati in the fourth quarter, that was very well received, and went to a very well-known, very large institutional investor that probably wouldn't look at a western market, or secondary market. A year ago, and perhaps when looking at prior to the downturn either. So there is a amount of – a lot of pressure to get capital out. And as a result investors are making compromises or decisions or alternatives that lead them to broader directions.

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I would say competition for value-add assets has become more fierce. I'd say value-add in large part – lot of owners aren't selling at the value-added stage anyway. So it's never been easy for us. I'd say it's a little bit more competitive than it was a year ago, particularly in primary markets, which obviously where our focus is as well.

But one thing about value-add is, it takes talent not just money to see the opportunities, to plan for the redevelopments or whatever might be involved. And so there is still to me an opportunity there, which we have and maybe others as well. But who have counted on the ground people that can see the opportunities as well as and have a confidence in executing against those opportunities.

Michael Bilerman — Q

Okay. Thanks a lot.

Operator: Our next question comes from George Auerbach of ISI Group. Please go ahead.

George Auerbach — Q

Thanks. Phil, two questions on leasing. First, I may had missed it, but can you update us on where the small space occupancies [indiscernible] in the portfolio? And what your guidance supplies for the lease up of the portfolio?

Philip Hawkins — A

I'll let Matt answer that question.

A

Hi, George. Actually

the occupancy in the fourth quarter went down slightly, it was really more as a result of transactions, we bought some vacancy associated with the aging portfolio in those smaller spaces as well as some in Southern California, so it ticked down by 20 basis points from and I'm talking about spaces 50,000 square feet and below.

The lease-up trajectory on that is actually that we continue to see strong demand in a lot of leasing activity in the smaller space. So I think it's safe to say that a meaningful component of the growth that I talked about in terms of the guidance will come from smaller space leasing and we're seeing that activity on the ground.

George Auerbach — Q

Great. Thanks. And second, can you remind us about the large vacancies in the portfolio and any activity there in particular Columbus and Atlanta?

A

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Well, you're [indiscernible] my scripts, Columbus is least done, great job by our team there, that market has come around really nicely, that's done. Memphis, not yet done, some activity, Mike you have the phone, I want you give a quick update on Memphis. Go ahead.

A

Sure. With respect to Memphis, I'll add, on a positive note, we had two vacancies in Memphis, one has leased, which will bring us up 300 basis points. So we are literally down to one space and we have I would say a steady activity, but a slow, certainly slower than the Mississippi side. As you know Tennessee competes with Mississippi in that market, but again it is a little slow, but steady. We've got two active proposals out today from the space.

George Auerbach

Q

Great. Thanks.

A

George..

A

Go ahead.

A

Sorry Mike.

A

There is my big finish. Come on.

Michael Bilerman

Q

Sorry. I missed it. Thank you.

A

Sorry.

Operator: Our next question comes from Jamie Feldman of Bank of America Merrill Lynch. Please go ahead.

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Jamie Feldman

Q

Great. Thank you. So I guess thinking ahead of 2014 in your guidance, you've talked about modest economic growth outlook, but I'm just wondering if there is any other kind of key shifts in the market, that we should be thinking about? I know, George was talking talked about small tenant versus larger tenant. But just as you guys are thinking about the year ahead, whether it supply or intermodal or housing or e-commerce, kind of what do you think the key drivers are going to be?

A

I think the drivers and the risks are the same as 2013. The drivers will remain, I think ongoing consolidation and streamlining of the large kind of global distributors, who are looking to continuously fine tune and some cases dramatically redo supply chains.

Second, e-commerce clearly is a force that will remain and you're starting to see for example Walmart become much more active in their e-commerce supply chain, in some ways, they're playing catch up. But that's a positive for our business. Next, I think small tenants, as Matt has already talked about, is a trend that will continue, which is not a new trend thankfully. But it's an important trend, I don't see it's slowing down. We see ups and downs to the economy. One week everything is possible, and next week, there is concerns again. But the smart user has more confidence than a year ago. And I don't see that changing. I don't think it's that fragile.

So that will continue in part help by housing, but I don't think housing has been the dramatic driver of small tenant or any tenant demand that something you might have thought, it's helpful. It's important, but it's not dramatic. I'd say it's important. And then the key risk is supply, which I am not telling anybody on this call something they don't already know. Supply has moved up, capital has moved in, my comment about capital chasing value add applies the development as well. It remains disciplined, but as many of you – the analysts have noted, we've now gotten to the point where supply has caught up to net absorption in many of the strong markets.

If it overshoots that and/or if demand for whatever reason drop significantly, we will be talking about that. We're talking about now I guess. So to me – maybe it is something we don't see around the corners of to identify, but I think 2014 is a pretty straightforward year. We are in a good recovery and economy that not great, but not broken, improving slowly with strong external drivers to the industrial business that really help us beyond this economic growth.

Jamie Feldman

Q

Okay. Thanks. And then thinking about the development starts $100 million to $200 million, I think that's – it's certainly less than you've done this year, how do we think about that in the context of what you just said about supply as a risk and then maybe thinking about potential upside to that as well?

A

Well, we would certainly love to do more – $200 million is not a ceiling on it, nor a floor I guess, although I think $100 million I think is pretty achievable. Can we – that range and effected below 2013 reflects our, I think, discipline, but certainly measured approached development. We've never say [ph] pellable metal we want do the right deals, quality, and execution more important than quantity more better than less 00:26:00 somebody to

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that. We just don't want to put anything out there, that puts us into the box, that you have to decide between achieving high expectations, we're doing the right thing.

And the right thing for me is much more important than volume and it's much more important to me that we leased where we have underway. So if we see more leasing, you'll see more development. If you see less leasing, you'll see less development, it's really simple. And again, we love to do more, I hope to do more, but I don't want to guide anybody to that expectation because I don't think that's realistic.

Jamie Feldman

Q

Okay. And then finally, can you talk a little bit about the Broward County JV land and just what your thoughts are on that market and opportunities there?

A

Well, South Florida, 00:26:48 [indiscernible] land side, the JV was the best and most practical way to get access to the land and that's why it's structured that way, the entity control that land well respected partner, well respected player in that market. But I think it shows our flexibility to think about how do we acquire great land site, however, we have complete control over decision making. And that end, so that is also important to us that we want to control it on destiny and that we're willing to accommodate seller need in a way that is compatible with our objectives and but also help them achieve their objectives.

Operator: Our next question comes from the Brendan Maiorana of Wells Fargo. Please go ahead.

Brendan Maiorana

Q

Thanks. Good morning. So Phil, just on the supply outlook and the development outlook. You guys have done really great job, you're kind of picking up some of these land parcels and you got Dallas this quarter and South Florida and you did the Jurupa stuff in Southern California last quarter. I sort of look at the returns that you are getting on these projects and they look attractive, is there something about what you're able to do in terms of picking these land parcels and putting them in motion to achieve attractive returns that's a lot more difficult than other players replicating that strategy in the market such that we wouldn't get a big supply response, at least in 2014?

A

In the markets, we've – thank you, first of all. The markets that we have been focused on primarily the coastal supply chain markets is clearly, it's not easy to acquire land and I know you result in Southern California, I mean so the Jurupa Ranch, the Egg Ranch, with a little more straight forward from zoning and terminal perspective gets complicated and takes time. Some of the other acquisitions we made, we've assembled land that takes time. It takes on the ground talent and we are not the only ones that have it, but I wouldn't trade my team for anyone else's. And I'm not saying it can't be done by anybody, because it is being done by others I mean look at the supply numbers, but I like our ability to compete, the reputations and credibility you have on a local level to earn their attention of a land owner is important. It's not like selling a stabilized building with your higher [ph] CB or East deal, and you talk to a thousand of your favorite friends, and you get 50 proposals, and they're all the same, and you have to just pick the higher price. Land is much more difficult than that, as a seller, not just as buyer. It takes

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a relationship. It takes time. And they want to pick something, their confident will get you through the approval process, the review process, they will be reasonable, creative, confident in solving problem as they go through all that, and so reputation matters a lot more in land than it does with, I'd say, buying stabilized buildings. I'm not sure, I answered your question, but, I'll stop and let you answer again – ask again.

Brendan Maiorana

Q

No, okay. No. That's helpful. Yeah, that's a great color, thank you. Question is – just last question for Matt. I think you said that capital activity in the quarter, I mean, in the year would be $0.01 to $0.02 dilutive to the FFO outlook, is that driven by the – is that driven by the change between the cap rates that you sell at and what you acquire and develop at or is that also the strategy that you guys have done over the past couple of years, which is deleveraging through growth such that we might see leverage tick down a little bit as you go throughout 2014?

Matthew Murphy

A

It's probably a little bit of – it's defiantly a little bit of both. It's clearly much more impacted in the numbers, by the fact that we've been selling, stabilized, fully occupied buildings and buying vacancy. And then also deploying the capital that we've been raising both through dispositions and equity into development, which over the longer-term is highly accretive both from a portfolio quality and cash flow growth perspective, but you're turning, say low 7s disposition cap rates into something that generate zero for a while and so it's really more of the former that it's the sort of cap rate and timing trade of the NOI associated with the recycling of the portfolio. But it does have a little bit of the latter. I think that's less impactful in 2014 honestly than it was in 2013. Because I think basically we're in pretty good shape from the deleveraging that we still have to do is as much about growing cash flows as it is about sort of having relatively last debt.

Brendan Maiorana

Q

Okay. So it's just that the NOI – you get the NOI growth sort of – it's not that you would issue on the ATM at sort of 100% equity finance some of the growth kind of thing?

A

Well, like we said, it's always been a combination of each. And if you're going to grow which we have done and you don't want to de-lever, you will issue equity to do so. But I think the delusion – obviously the stock price that you issue has part to do with it. But I think the delusion I described is much more about the trade off in immediate sort of year one cap rates than it is about the capital structure.

Brendan Maiorana

Q

Okay. Got it. Thank you.

A

Yeah.

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Operator: Our next question comes from Eric Frankel of Green Street Advisors. Please go ahead.

Eric Frankel

Q

Thank you. So I know you guys mentioned that as part of your guidance for next year, you have disclosed how you're going to fund all your acquisition development starts. Just curious, at this point what appears more attractive right now, issuing equity or funding it through sales and maybe I just want to get a sense of the size of your potential disposition cost?

A

We are pretty pleased about what we are seeing in a disposition world. We had some sales in the fourth quarter that were really well received. We have several packages out now, some formal, some informal. And I think that window is pretty attractive right now. Clearly, we have the desire to continue to manage the balance sheet and that will remain an objective in the way to do that besides as Matt said, leasing more, built more space. Cash flow helps a lot.

I would not be surprised if we over time did issue some more equity in 2014 and it's hard to say when and why – for a variety of reasons, but as Matt said in his prepared remarks, I think, you'll see a combination of both. And depending on the market, you might, at the time, you might see a bias towards asset sales over equity.

On the other hand if equity is attractive relative to the opportunities we see to deploy that capital. We certainly demonstrated a willingness to do that.

Eric Frankel

Q

Great. Thanks. And then just talking about the development pipeline, one obviously, you've been super successful [indiscernible] empire and that you have a new development start there. I just wanted to get a sense of supply in that particular market and then just get a sense of leasing activity for the rest of your development pipeline aside from that write down?

A

I'm not sure, if I can add about supply out there other than, there is a fair amount of supply underway or recently completed. What we have is, I think, really well located in the West, fair amount of the supplies in the East. We like that, like the leasing activity we're seeing and also the market there starts with vacancy. I don't have up to the minute vacancy on 500,000 foot space or above, but it's – last time I looked it was under 1%.

So, you can have a lot of supply in that environment and not be as the same threat as it might be in another market where you've got maybe winless supply, but 6% or 7% vacancy, which isn't bad, but isn't 1%. We've got a good activity everywhere, Houston, I mentioned beside signing the lease, we've got two leases that Justin feeling pretty good about. They've never done to it down, and so probably Matt and me were even mentioning it on the call, but I did. Chicago, we increased the size of the tenant that we – first, we said that we'd like to building up late in the third quarter. We did [indiscernible] 300,000 foot tenant, they changed it at the last minute, high class problem to grow by another 100,000 feet, that put us back further. We now know what we're selling or leasing versus the 200,000 foot space. Neil and Brian Roach are very optimistic or encouraged, rates are higher. The good

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news is we'll be behind on lease-up, that's fair to say. But the rates will be a lot higher than we performed and the yields will be higher.

So it's a nice situation to be in or rather it'd be leased. I think we'll get that leased in the fairly near future, although nothing – again nothing eminent. Seattle really good leasing activity there. We've got two projects under contraction that are spec. Both of them have good leasing activity. Again nothing eminent, but they're busy talking and exploring ideas with tenants who are pretty serious about their need to a space. I think I've covered the bulk of our pipeline, if I miss anything, Matt? Okay.

Eric Frankel

Q

All right. Thank you.

Operator: Our next question comes from John Guinee of Stifel. Please go ahead.

John Guinee

Q

Great. Thank you very much. Two questions, one just more of a curiosity. You guys have the land acquisition located, in your press release it says, Southeast Broward County and then in the supplemental, it says Miami. So, my question is, where is it? And then, second, it seems like, it's, you're buying it for about $100,000 an acre and about $7 per buildable foot, which seems like a very low number and attractive pricing. Can you talk about the total development cost and yield, given that basis, that you're starting?

A

I'll answer the first, Mike Ruen, thank you for having him a question John. The first is simple, I corrected the press release, we think, Miami as a market, I call that a regional market, and it's not. It is in South Broward County. I've got the press release, we forgot the fix the supplemental. It's South Broward. Mike, do you want to talk about the deal in more specific terms?

A

Sure, happy to do that. To drill down, John, on a location, it's actually just adjacent to a master plan park, called Seneca in Pimlico which is a South Broward submarket. So, it is – it would be considered South Broward for [ph] lot dale. The land basis is a little bit misleading, because we took down the land. But then, in a subsequent pay-down, we will buy the fill that's been prepared currently by the land seller. So, it – I would have to really break it down for you and I'll be happy to do that offline, but it's a much more commensurate number with market as far as, – once you include the cost of the fill. And as far as the overall cost, we're somewhere in the low hundreds.

John Guinee

Q

Okay.

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A

All in, stabilized.

John Guinee

Q

All right. That's what we would have expected. And then the second question, things have gone pretty well. The dividend has been $0.28 for ages. Any thoughts about the dividend, Phil?

A

Well, it depends on the results, I thought it's remain the same, which is we've got terrific uses for the capital as company may generate. RIETs unfortunately don't generate a lot of excess capital, but that's what we do have, I think we put into good use. We are obviously paying attention to taxable minimums, and that's kind of our approach to the dividend in this environment. Some of that is fairly predictable based on operating results, but I don't see there is selling assets, that also can trigger gains from a tax perspective that may impact that dividend, but I would – I obviously don't think dividend is a 2014 issue or question, or opportunity.

John Guinee

Q

All right. Thank you.

Operator: Our next question comes from Craig Mailman of KeyBanc Capital Markets. Please go ahead.

Craig Mailman

Q

Hi, guys. Phil, maybe just a follow-up on the sales, I know you have some packages out there. But just give me your comments about some of the leasing that put [indiscernible] some of the larger vacancies and kind of the spreads between As and Bs. Is this the year where maybe you can accelerate the exit from some non-core markets and maybe you didn't think, you'd be able to do till 15, is it accelerating your ability to get out of those some of those markets?

A

Our focus is more on buildings and markets. But clearly our thoughts on buildings in large part, beside the asset itself, derived from our thoughts in the market. And I think you're correct in thinking about how my comments impact our divestment – our sales strategy. Although we're – we've got some buildings on the market now, that are in markets that we like long-term. We think that those buildings for whatever reason have less growth and maybe more attractive in the hands of a different kind of owner or more institutional owner than us. So it's not just market driven but wholly my comments about the investment sales market and secondary markets, combined then with leasing would lead you to, I think, you're thinking about it correctly.

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Craig Mailman

Q

Okay. Then the second question, we talked a lot about supply today and you've obviously – I think you've a pretty realistic view of the world at this point. I am just curious, has the underwriting process changed it all for you guys, as you go to investment committee on new builds?

A

I think the underwriting process is so case-by-case, so individually driven and it's hard to say that I would say that most numbers of the committee, maybe every member of the committee, both the management investment committee as well as the board investment committee are part of a little less – kept a little more skeptical about lease up times and rents than we were two years ago. On the other hand, we are more confident in the market themselves where the economy is I think in better shape and on a more solid trajectory than it was two years ago. Cap rates are a little lower in markets than two years ago. So yields have come down a little bit. So I think it's changed but I can't necessarily see it's changed in one direction again remains. It is a very detailed project-by-project discussion that as it should be.

Craig Mailman

Q

Okay. That's helpful maybe just put one more in there what at 00:43:13 [indiscernible] coming at relatively to the performance for the return.

A

Well, above pro forma, I don't think we developed – divulge...

A

Specific yields we haven't. But it is meaningfully ahead both on really sort of hit the dry factor, which is a little bit better in timing, a little bit better in cost and meaningfully better in rate.

A

So I guess that, that's why I can – even I can answer the question a bit of the pro forma. Great job by Justin and Will in our Houston team in executing that deal.

Operator: Our next question comes from Gabe Hilmoe of UBS. Please go ahead.

Ross Nussbaum

Q

Hey, guys. It's Ross Nussbaum here with Gabe.

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A

Hey, Ross.

Ross Nussbaum

Q

How are you?

A

Great.

Ross Nussbaum

Q

Can you talk about the TRT joint ventures that you exited in January. If my math is right, it looks like it was just under a seven cap on the dispositions, number one is that about the right math and number two, why weren't you a buyer of a majority interest in those ventures into new the assets so well?

A

Not surprising, your math is good, I wouldn't want to criticize your math anyway in public. No. No. Your math is pretty close, I don't know the exact cap rate myself, but it's pretty close. We thought a year ago now, not quite a year ago, but probably year ago, we started talking to TRT and we acquired the assets that we did like, markets and assets that made sense for DCT. We continue to talk to our partner about those ventures and concluded that the assets that were just sold would really not have interest. There's one maybe two that could have been, but the package was much more attractive in its entirety. And and the [indiscernible] value of those assets that we would have taken were pretty de minimis and so the right decision for the venture and the right decision for DCT but obviously starts with the first was to sell to a third party which we then went through a very fully marketed program and terrific investor interest. We learned a lot, all good, and are very satisfied sellers in that regard. We saw the couple assets left in the TRT venture that as Lisa progresses and/or markets change to further improve, I think it's likely to say that we will sell those as well and we are not likely buyers of those assets either.

Ross Nussbaum

Q

And is it fair to say that this is sort of the end of the relationship with TRT and you'll grow dividend capital relationship or are you open to do any future ventures with them?

A

Well, our strategy for five years at least has been to really focus on balance sheet ownership, and not pursue the joint venture or fund management approach. I think we are better equipped. Our strengths are much better focused on acquiring and developing on our own balance sheet and acquiring and developing assets we want to own long-term. And so that the wanting down of that venture, our acquisition of the [indiscernible] venture a year ago, the acquisition of many of the TRT assets nine months ago, all consistent with that strategy of really – if it's

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worth owning part of, own all of it and vice versa. And we would never rule out joint ventures. We just didn't want in before but it's done in a way that's very strategic that allows us to control the land that we wouldn't otherwise have been able to acquire as opposed to some way of spreading out our balance sheet among more projects and in some cases, diluting control as well and that I'm not a fan of either one of those.

Ross Nussbaum

Q

Okay. That's helpful. And then finally, you guys have done a nice job shifting the portfolio over the past couple of years but I'm looking at the portfolio listing you still have a couple of markets where you got less than five assets and I'm thinking it's really Charlotte, Denver, Louisville, Nashville. What's the game plan for those markets in particular? Are those still – are those going to be exit markets or growth markets?

A

I would say not growth market. They may be growth markets. There're not growth opportunities for us. Denver is one where it's a great market [indiscernible] market. We bought some assets over the last couple of years, wouldn't be opposed buying there. Obviously, we live here and operate here, not a priority, but surely not a – not something we've stayed away from. Charlotte, we actually exited two years ago probably year-and-half ago. We then took down assets from TRT and there are all costs collateralized on a loan, which is the opportunity for us because frankly the portfolio was fairly eclectic and therefore not all that marketable to – at the time. We took the Charlotte asset. It's leased long-term. We've seen an opportunity actually to renew that lease, but not at – on our turn, it's not the tenant's terms. And so we're really frankly working through value creation at this moment and very patient. It's a great asset. The other markets I don't think you'll see this expand, but naturally the gray market. We've actually think there is more growth in those assets and the cash flows there, then perhaps elsewhere [indiscernible] we want to grow aggressively and others have. It's really because we see the opportunity to grow cash flows, as that market is really recovered over the last couple of years, and really Mark, get leases at a below market, back up to market before we sell.

Ross Nussbaum

Q

Okay. That's helpful. Thanks.

A

Thanks.

Operator: Our next question comes from Michael Mueller of JPMorgan. Please go ahead.

Emil Shalmiyev

Q

Hi. Good morning. This is Emil Shalmiyev on the line for Mike. A few questions on development. I think you said, you would have mentioned returns on specific projects, but what's the range looking like for the current pipeline? And then in terms of leasing, how much time are you factoring in for lease upon completion of the current pipeline on average?

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Matthew T. Murphy

A

Hi, Emil. This is Matt. As we've shown in the [indiscernible] current pipeline, the average yield of 7.3%. That's obviously a mixture of the portfolio that we have for the lease up perspective again, I still mentioned it's facts and circumstances on each market, I'd say, simple answer is probably a nine-month average, it's probably a little bit more than 9%, it's a combination of the 9% and 12%, but it is obviously determined on a specific case basis. And that excludes obviously build to-suits liquidity in Seattle that does effect the average I was just talking about.

Emil Shalmiyev

Q

Okay. Thank you. And in terms of the mix of funding, you said it's similar to 2013. I think I'm seeing about, it was 50-50 asset sales [indiscernible] is that about right?

Matthew T. Murphy

A

That is absolutely right for 2013. As Phil mentioned it will be a combination you evaluate the appropriate source of funding given the combination of the use of proceeds and the relative strengths of the sort of two sources from a capital markets perspective and you'll make the determination accordingly. I think over the long-term it clearly ends up being a mix and that approach is 50:50, in the short-term, it's really more about evaluating the markets at that given point in time.

A

Yeah. The good news from our perspective is we've made a lot of progress naturally in the portfolio but on the balance sheet and we're very comfortable within the range of balance sheet metrics that we need to relative to the ratings and the obligations we committed to for to our new bond investors and the rating agencies. We're mindful of the balance sheet, but we are also not in a position we have to do anything. So we can do what's right for the company to manage both the portfolio and the balance sheet and take the opportunity that presented to us.

Emil Shalmiyev

Q

Okay. Thank you guys.

A

Thank you.

Operator: Our next question comes from Paul Adornato of BMO. Please go ahead.

Paul Adornato

Q

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Thanks very much. Good morning. Just have one quick question and that is I was wondering if you could tell us about tenant sentiment today versus six months ago, is there more of a sense of urgency among your tenants and maybe if you could also drill down to large tenants versus small tenants and any geographical differences?

A

Hi 00:52:50 Matt that's [indiscernible] .

A

Sure. Sure. You know Paul, I would say that with respect to our larger well-capitalized tenants, they've really got out over the last couple of years. So there is not as much sense of urgency. I mean certainly you don't want to generalize because there are groups specifically looking at, perhaps getting out a little early on a renewal perhaps, we are seeing some of that activity. Where I would focus my comments is on the small business pickup. Sales are up, confidence is up, and more importantly now their evaluations are up. And so, what we're hearing from the smaller users is that they're now seeking capital for growth. And that is really important for us because not only does that lift Class A, it also lifts Class B – quality Class B and infill locations, which is very important and provides significant balance in this recovery and overall fundamental improvement. So I think that's where we're really seeing a consistent change in saying, but overall, I think people are feeling pr etty good. And to Phil's comments earlier, just the economy feels more sustainable, and so it's positive.

Paul Adornato

Q

Okay. And I guess there's a follow up. Since there's more activity and more urgency on the small tenant size, does this imply that we might see more [ph] suspect development since the largest tenants might tend to do built-to-suit activity and the smaller tenants be left to multi-tenant stack?

A

Go ahead. Mike, go ahead.

A

Go ahead, Phil. I'll follow with some color.

Philip L. Hawkins

A

We've seen success on large box speculum. I mean that's been our [indiscernible] for the last couple of years. I think you're going to start to see – I know it's early, some smaller box development that makes sense. We just bought a billing for 100,000 foot. We bought a piece of land actually bought right next to door to a building we bought was [indiscernible] complexity of that deal, which was to our advantage I think, we're really optimistic about that development in Dallas. You think of Dallas is a large box market. Well we've got – we're doing really well with the quality – kind of small building and which gave us a confidence to go after that deal. We will see this start something in Pennsylvania, which Mike can talk about there'll be again a 400,000 kind of size, which is not a

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million foot big bombers that you've been reading about, but which we are much more optimistic today than we might have been three years ago.

Mike, go ahead, any other color you want to add.

A

No, I would say – I would just add to that, that again, the multi-tenant segment is very important to our development program. And we like to focus on that core tenant base. And what takes that to an actual start or opportunity is rent growth. And again, I would just iterate as the markets become more balanced, we're able to push rents. And this tenant size range, and it bodes very well for us in certain markets, where we are looking to build single loaded multi-tenant products.

A

Okay, great. Thank you.

Operator: [Operator Instructions] Our next question comes from Ki Bin Kim of SunTrust. Please go ahead.

Ki Bin Kim

Q

Thank you. So, if I look at the past few years of, how you guys provided guidance. I would always consider you as one of the most straight forward CEOs out there and it's so surprising – I mean, I am certainly surprising to see strong guidance come out of from you guys for 2014. So, my question is, how much of this is embedded in terms of the world getting better in 2014 versus what you're seeing on the ground today in leasing that you've done today that gives you the optimization especially for that occupancy increase portion of that guidance? And may you said differently, how much of the leasing that you're guiding towards is already pretty much done?

Matt Murphy

A

Well Ki, I'll take this. It's Matt. I don't know that I can separate the two. Ultimately where as I talked about, we're anticipating leasing in order to hit our guidance numbers but that anticipation is based upon what we're seeing today. I don't think of it as the world needs to get better in order for us to achieve these numbers. I think it needs to stay on the same path which is basically what we believe is going to happen. So I think the guidance, there is a lot of leasing to do in that guidance but we're in an environment where and we have a platform where we should believe that leasing is going to occur. So I think they go very much hand-in-hand. I think it would be very disappointing to me personally and the DCT in general, if we weren't able to achieve further both rental rate growth and occupancy growth given the portfolio we've assembled and therefore our guidance reflects that.

Ki Bin Kim

Q

Well, maybe – let me ask it a different way. You have about 160 basis points of higher occupancy embedded in your guidance for 2014. How much of that is already in or what you consider solid negotiations were addressed?

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Matt Murphy

A

Well, it just occurred to me. I think I may get your point. So roughly half of. So we have – your numbers are pretty accurate in the midpoint of guidance. In terms of the average occupancy in 2014 versus the average occupancy in 2013, but in point of fact, we're sitting today at well above what our average was in 2013. So roughly half of what we need to do is like phrase in the bank, but it's we're starting out. If we were to do nothing, but stay where we are today, you're roughly halfway home.

A

Let me add one more comment. I think this is still the same Phil Hawkins, that was here a year ago. So you make me nervous, but the – to me, the biggest difference besides more confidence in the environment. The biggest difference this year versus the last year for DCT is that far fewer, almost no current tenants, have we thrown the towel in on. This time last year, we had a number of major known move-outs. And so, in some ways while it may look more aggressive to you, it is certainly – we've never tried to be conservative, but things go well sometimes and thankfully the last two years that's been the case. I like the fact that our portfolio is starting off not behind [indiscernible] but in some ways ahead. We got a lot of work to do to earn those renewals and we won't win them all. But at least we got a fighting chance on almost every one of them, and that's a big difference.

Ki Bin Kim

Q

Well, thanks for that great color. Just last question, if you look at your tenants that use bulk industrial space for distribution to their store networks versus your bulk distribution user – bulk industrial phase users that are purely for e-commerce like an Amazon. For the retailers that have stores and have online, do they use the same warehouse today to basically cover both functions or is it separate or do they converge?

A

I see the rule of thumb is separate for a variety of different reasons since the fulfillment process is much different between the two. When you ship into a story, ship into a truck, and you ship in a truckload, when you ship into a user, you are sending it to a EPS trucker, FedEx truck that is backed up worth one box at a time going on that truck. So, Mike, any other comment you want to make in terms of the differences between the two or the sharing of warehouses.

A

Yeah. The only thing that I would add is not only are they in different warehouses. They are often in different locations within the same metro area. I will give you an example, carters here in Atlanta for their bricks and mortar deliveries all of their outbound comes out of South Atlanta and Henry County for store replenishment. A 100% of their e-commerce comes out of the Northeast submarket along 85 because it's a better network to get them over to the I-95 corridor and the [indiscernible] 01:02:13 that they are serving.

Ki Bin Kim

Q

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Right. I mean that's – it makes complete sense.

A

Yeah.

Ki Bin Kim

Q

I guess. Go ahead.

A

No. That's it.

Ki Bin Kim

Q

It makes perfect sense. I guess there's some questions about, does this industry somewhat cannibalize 01:02:30 if these converge at one point in the future?

A

Yeah. That's a $1 million question. I wish we knew that and the only other think I would add is that, I Phil even alluded to with Wal-Mart earlier, you can't generalize because these guys are always in different stages. You hear some feedback that Amazon is now sort of slowing down their regional search and looking for more infill locations in the 250,000 square foot to 300,000 square foot range. Wal-Mart conversely, they have four searches for a 1 million feet or better, in Northern California, Southern California, Atlanta and Dallas. So your timing is different and it's tough to generalize where these guys, heads are when it comes to focusing on their supply chains, whether it be for store or ecommerce for that matter.

Ki Bin Kim

Q

Right. Well thank you for that those details.

A

Sure.

A

Thank you.

Operator: Our next question come from Eric Frankel of Green Street Advisors. Please go ahead.

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Eric Frankel

Q

Thank you. So I know the cause what [indiscernible] that law, but actually I just want to follow-up on Kevin's comment. Do you think ecommerce, do you think it's actually cause a growth in that demand of warehouse space are do you think it's actually replacing what would authorize the bricks and mortar type distribution center?

A

No, absolutely a growth. Net growth I mean, for variety of reasons but because you've got more products as being fulfilled not from the store which isn't our business, but from a warehouse which is our business. And I think, it absolutely has been a substantial increase to net absorption. Now a lot of it is Amazon and a lot of that has been build the suites in new supply, but nevertheless, we believe to a number of ecommerce users I don't think its cannibalizing now to the extent traditional retail flows or even goes in a reverse direction, which I hope is not the case and then sooner be the case that clearly will need less growth in a positive way or less warehouse space in a negative way, depending on what happens to the business, the very different businesses.

A

The only thing that I'd add Eric is that I think ancillary to that is part of the ecommerce trend has been to satisfy in some place – in some ways, increase people's desire to have things right now. The movement to immediate delivery absolutely has to be a positive to distribution space. You just got to push good forward. If the trend you deliver same day, continues to gain steam. It will absolutely be a positive to distribution. It has to be.

Eric Frankel

Q

Okay. Well. I look forward to day 01:05:25 [indiscernible] related distribution centers. My final question, I guess, is related to what – one of your peers analysis on development, just the replacement costs rent analysis. Do you feel where developments are being budgeted, are there rent that developers want to achieve, are they significantly higher than what has been the transactions are – that are being – that are taking place right now?

<A>: 01:05

52 I don't speak for us. And I would say that we are budgeting or performing developments at current rents. We may run a scenario where we see kind of typical kind of 3% rent growth, if it is a two-year project that's' out two years, but we're not taking [indiscernible] faith. Now, we're not developing in every market. And we're not – so, we may not be thinking about it, like anybody else. But I believe that in the markets we're developing that we are making money and doing just fine based on current rents. Now, we've outperformed over the last three years of development because rents have gone up faster than we had projected at least in our underwriting, but that's not something we bank on going forward.

Eric Frankel

Q

Great. Thank you for the color.

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Operator: This concludes our question-and-answer session. I'd like to turn the conference back over to Mr. Phil Hawkins CEO for any closing remarks.

Philip L. Hawkins

Well. Thank you very much for participating asking questions and listening. Look forward to talking to many of you over the next few months and again appreciate your interest in DCT. Thank you.

Operator: The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.

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