

DCT Industrial Trust Inc.

Fourth Quarter and Full-Year 2015 Earnings
Call

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CORPORATE PARTICIPANTS

Melissa Sachs - *Vice President, Corporate Communications and Investors Relations*

Phil Hawkins - *Chief Executive Officer and President*

Matt Murphy - *Chief Financial Officer*

Neil Doyle - *Managing Director, Central Region*

PRESENTATION

Operator

Good morning, everyone and welcome, to the DCT Industrial Fourth Quarter and Full-Year 2015 Earnings Conference call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation there will be an opportunity to ask questions. To ask a question you may press star and then one to join the question queue. Please also note that today's event is being recorded. At this time, I'd like to turn the conference call over to Ms. Melissa Sachs, Vice President of Corporate Communications and Investor Relations. Ma'am, you may begin.

Melissa Sachs

Thanks, Jaime. Hello, everyone, and thank you for joining DCT Industrial Trust Fourth Quarter and Full-Year 2015 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 2016 guidance. Additionally, Neil Doyle, our Managing Director of the Central Region will be available to answer questions about the markets, development and other real estate activities.

Before I turn the call over to Phil, I would like to remind everyone that management's remarks on today's call will include forward-looking statements within the meaning of Federal Securities laws. This includes, without limitation, statements regarding projections, plans or future expectations. Actual results may differ materially from those described in the 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 on 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.

Phil Hawkins

Thanks, Melissa, and good morning, everyone. The fourth quarter capped off another great year for DCT. Thanks to better-than-expected rent growth and strong development leasing, we significantly exceeded all of the operating and financial metrics that we outlined on our earnings call a year ago.

While global and macro level headlines have been somewhat mixed lately, the fundamentals that are driving strong growth in our markets are very much intact. Tenant demand remains at favorable levels, led by e-commerce related uses, but also including more traditional distribution and light industrial uses across all size ranges and industry verticals. The increased focus of e-commerce users on infill locations aligns very well with our portfolio and approach to the business.

As an indication of the continued strength of tenant demand, we signed 1.2 million square feet of new leases and 700,000 square feet of renewals in our operating portfolio in January, for a total of 1.9 million square feet in the month, an excellent start to the New Year. Strong tenant demand, combined with historically low market vacancies and continued restraint on new supply, bodes well for further rent growth in 2016. Looking forward, we continue to believe that supply will remain in check relative to demand helping to sustain the strength of the overall operating environment.

Given operating fundamentals that are favorable, investor demand for industrial assets also remains strong. Since the end of the third quarter, we sold \$163 million of assets in seven different transactions spread over seven markets, including a \$66 million portfolio in Houston. The average year-one

expected yield on those assets was 5.9%, reflecting the strength of the overall investment market.

We had good investor turnout for each of the packages we sold. Based on our recent experience, there's still plenty of depth in the pool of motivated buyers, although the list is a little shorter than a quarter or two ago. An excellent indication of buyer motivation is that we closed each of these transactions without any last-minute price concessions tied to due diligence or market concessions.

With the sale of the assets announced in yesterday's earnings release, both our portfolio repositioning and our balance sheet delevering are largely complete. Looking ahead, we will continue to fund deployment, primarily development, with asset sales but on a leverage-neutral basis with a near-term debt-to-EBITDA target in the low 6s. As a result, FFO per share growth is expected to accelerate in 2016 and hopefully, beyond.

In consideration of the mixed headlines from around the world, let me make a few comments about how we manage risk in running our business. While we continue to enjoy strong tenant demand and market conditions, we can't just put our heads down and take the current environment for granted. Nor however, should we slam on the brakes and ignore what we are seeing on the ground.

Instead, as I believe we have demonstrated in the past, we remain highly disciplined in making operating and capital allocation decisions. It starts with our overall approach to establishing limits on how much development risk we're willing to take in any one sub-market, market, and overall. We have always and will continue to avoid land banking. We focus instead on buying infill land that can be put into production quickly, minimizing nonproductive assets on our balance sheet, which become an even greater drag during a downturn.

Further, our investment committee is very engaged in evaluating, debating and underwriting current and projected market fundamentals when considering development starts as well as land and building acquisitions, not rationalizing projects that are mediocre in terms of location, building function or financial return. We pay close attention to what our market teams are experiencing on the ground and we will react promptly to any changes that we start to see.

Last, but far from least, is the strength of our balance sheet. We have successfully de-levered over the past five years, which prepares us to both withstand an unexpected downturn and capitalize on opportunities that might arise should one occur. In summary, this is a great time to be at DCT and our organization is taking advantage of the current environment to create substantial value. We have an outstanding portfolio that is well-positioned, not only for today's a strong market, but for times when conditions become a bit more challenging.

With that, let me turn the call over to Matt, who can provide more detail on fourth quarter results and our 2016 guidance. Matt?

Matt Murphy

Thanks, Phil, and good morning. 2015 was a great year for DCT and the fourth quarter was a very strong and representative final act for the year. Virtually all of our operating metrics came in ahead of plan and we extremely well-positioned headed into 2016, with over 4 million square feet of space leased but not occupied.

I will go through a few of the details for the quarter and layout our guidance for 2016. For the fourth quarter, FFO as adjusted was \$0.53 per share, an increase of 12.8% over the fourth quarter of 2014, and the full-year of 2015 came in at \$2 per share, 5.8% above 2014. The fourth quarter numbers are

ahead of our internal projections, driven by favorable variances in net operating income, interest expense and G&A, as well as an unbudgeted casualty gain of approximately \$400,000.

This increase in FFO per share was achieved despite selling over \$593 million of nonstrategic and/or lower-growth assets over the past two years, and lowering quarterly debt-to-EBITDA from 6.8 times in 2014, to 6.2 times in 2015. The continued strengthening of our balance sheet allows us tremendous flexibility in implementing our strategic plan, as well as the ability to withstand increased volatility in the capital markets.

Our operating metrics were also excellent in the fourth quarter. We achieved rent growth on the 5.8 million square feet of leases signed during the quarter of 12.3% on a cash basis and 28.5% on a GAAP basis. Both of these numbers are all-time highs for DCT and reflect the excellent fundamentals in our business, and I believe, the quality of our portfolio.

Same-store NOI was also a bright spot for the quarter. Fourth quarter GAAP same-store NOI increased 3.9% over 2014 and cash increased 7.4%. For the full-year, GAAP increased 5.9% and cash increased 8.6%.

I think the fourth quarter numbers are an excellent illustration of what's going on in our business right now. Investors are frequently asked what level of same-store growth our portfolio can achieve once the tailwind of occupancy growth has run its course.

While I don't believe that occupancy growth has indeed run its course, average occupancy in our 54 million square foot quarterly same-store portfolio was 94.7% in 2015, compared to 94.9% in 2014. So despite a 20 basis point decline in average occupancy, our cash same-store NOI increased 7.4%.

Let me break down the numbers. The burn-off of free rent in 2015 versus 2014, accounted for almost \$1.2 million of the over \$3.8 million of increased NOI. However, even if you remove this element, this growth would still have been almost \$2.7 million or 5.3%. Embedded rent bumps account for another \$1.2 million or 2.2% growth and the rest of the increase is comprised of the continuing improvement in net tenet reimbursements of recoverable expenses and capital improvements.

Finally, we had modestly higher miscellaneous fees that were offset somewhat by slightly higher nonrecoverable expenses. I'll talk about our expectation for 2016 NOI growth in a moment, but I thought the fourth quarter was an interesting case study of how the same-store numbers can play out without the benefit of increasing occupancy.

Turning to guidance for 2016, I want to make sure everyone is aware of the new guidance page that we've added to our quarterly disclosure. Page 18 of our supplemental reporting package outlines the significant assumptions and metrics inherent in our FFO guidance and will describe updates and explanations to those assumptions as we move through the year.

We are initiating 2016 funds from operations guidance at between \$2.07 and \$2.17 per fully-diluted share. At the midpoint of \$2.12 per share, this represents an increase of 6% over 2015 FFO as adjusted.

This guidance is predicated on the backdrop of excellent industrial fundamentals characterized by modest economic growth that should translate into continued strong tenant demand in the US. When combined with the encouraging discipline with respect to industrial supply we have seen in our markets, we believe we will continue to see strong rent growth in most, if not all, of our markets.

We expect 2016 same-store NOI growth to range between \$3.6 (million) and \$4.6 (million) on both a cash and GAAP basis as excellent rent bumps, both already embedded in our current rent rolls and expected from future leases, should combine with strong rent growth on rollovers to produce attractive increases in property cash flows. We are budgeting for average occupancy in our same-store and operating portfolios to be between 94.5% and 95.5%, which would represent a slight increase in each case over 2015 levels.

From a capital deployment perspective, our 2016 guidance assumes development starts between \$150 million and \$250 million and acquisitions of zero to \$50 million. The guidance for development is slightly higher than our initial 2015 guidance and at the midpoint, can all be achieved on land that we currently own or have under control. More importantly, it's all in markets, sub-markets and locations where we feel very good about current supply and demand dynamics within each project to direct competitive set.

Lastly, from a capital funding perspective, as I mentioned on our last call, we are budgeting to execute on an index-eligible public bond transaction in mid-2016, the proceeds of which will likely be used to refinance the roughly \$100 million in senior unsecured notes expiring in 2016, as well as to pay down bank debt, including at least some portion of the \$100 million term loan that matures in early 2017. We expect the remainder of the capital necessary to execute our 2016 plan to come from disposition proceeds. The timing and volume of these dispositions will be targeted towards maintaining debt to EBITDA in the low 6s, a level we've effectively achieved with the dispositions that close in early 2016.

In summary, 2015 was an excellent year for DCT. Our outstanding organization leveraged excellent industrial fundamentals to produce operating, capital allocation and balance sheet results that are all at the top of our peer group. I believe we have positioned ourselves so that 2016 will be just as successful.

We have a tremendous portfolio whose infill orientation positions us well to capitalize on e-commerce and other logistics trends, which we believe will continue to provide a significant tailwind to our industry. We have an outstanding organization that has proven the ability to create value through extensive market knowledge and relationships, many of the benefits of which we're just starting to realize. And we have a balance sheet that we believe gives us the flexibility to execute our business plan in a manner of our choosing, along with the strength to manage through macroeconomic uncertainties.

It's definitely a good time to be in the industrial business. I believe that's particular true at DCT.

Finally, one last prediction for 2016: I personally am feeling very optimistic and confident about an orange and blue victory on Sunday. Go Broncos.

With that, let me turn it over to Jaime for questions.

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, at this time we will begin the question and answer session. To ask a question you may press star and then one. If you are using a speakerphone we do ask that you please pick up your handset before pressing the keys to ensure the best sound quality. We also do ask that you limit yourselves to one question and a single follow-up. To withdraw your question you may press star and two. Again, it is star and then one to ask a question.

Our first question today comes from Eric Frankel from Green Street Advisors. Please go ahead with your question.

Eric Frankel

Thank you. Phil, I appreciate your thoughts on your capital allocation process as well as your risk management process. I was thinking though, if there's such a divergent between how the public markets currently value the real estate and the private market, any thoughts of taking advantage of that arbitrage going forward and maybe de-levering a little bit over the next year even further than your current goals?

Phil Hawkins

Thoughts, yes. Prediction, no. I think where we're in the market and where we're relative to the opportunities we see out there, I like our ability to create value, significant value and margins that are on a risk-adjusted basis very attractive to development. And so, rather than putting more cash on the balance sheet or further de-levering, if the environment unfolds the way we think it is, we laid out our guidance. I suspect that the environment won't unfold the way we think it will and hopefully, the changes will be more positive than negative, but we'll react to it as the situation unfolds.

Eric Frankel

That's helpful. Thank you. Just a follow-up question for Neil. Neil, so I think as you can characterize it, a number of central markets in the U.S. as somewhat low barrier in nature, so I was wondering if you could comment on one, the supply issue in a lot of the markets that you oversee, as well as some of the infill opportunity that seems you're able to find in markets like Dallas, Chicago, because it seems to be a little bit different this cycle than it has in the prior cycles in terms of that type of leasing activity.

Neil Doyle

Sure, Eric. Let's focus on Dallas and Chicago for simplicity. Both are seen as low barrier to entry and I understand that relative to the coast, et cetera. I will tell you that having developed in both, I see a little bit different story there. It is not as easy to develop and entitle and construct in Dallas as one would think, municipalities have enjoyed huge growth and with that, comes regulation.

What I will tell you is that we have found infill locations in Dallas through simple boots on the ground. We stick to our sub-markets, we find the opportunities. As you know, we've constructed two spec buildings in 2015 that are both leased up. We're sticking to our core which is northwest and DFW. This year, we've launched two more and how we got those was one site was slated for retail until that proved it wasn't going to happen and we were able to jump in, both with the city and with the seller.

And the other facility, where we put together five different land parcels that were essentially homesteads. But they were adjacent to the Waters Ridge Industrial Park, which is a proven, wonderful business park in Northwest Dallas. And much to our enjoyment, FedEx Ground decided to build a massive terminal right down the street from us, which I think is really going to help us leasing up that facility.

If I switch to Chicago, there is one big barrier to entry in Chicago, it's called Lake Michigan, so everything has to go west. And what you'll find is that those who do not want obstacles go to Southeast Wisconsin or down to I-80 which is equivalent of a South Dallas. We have found our opportunity is sticking to the infill, sticking to our sub-markets.

So we have got three major projects under construction in Chicago at the moment. Two are build-to-suits and one is speculative facility. I will tell you that all three of those had prior uses, prior uses that

we've had to demolish and reconfigure. So if you want to stick to infill and stick to your sub-market plan like we do, it's not easy but it is less competitive, it's just a little bit more complicated and we've been able to do it with smart people doing their job very well.

Eric Frankel

That's helpful. Thank you very much.

Operator

Our next question comes from Manny Korchman from Citi. Please go ahead with your question.

Manny Korchman

Hi, guys. Just wondering if you've seen any changes in either the tone or the tempo of tenant discussions given all the macro headlines that we've all been reading?

Phil Hawkins

Short answer, Manny, is no. I spent time last week, week before, down and around to our teammates and also talking to our three regional heads and Neil being one of them who's on the call if you want any further color. And I was pleased with the level of enthusiasm that I was hearing in January, given not only what we're reading but also, January tends to be a pretty slow month.

When you get a lot of leases signed in December, maybe a few roll into January, but new requirements really aren't going to start working until January and then that begins a process probably 30-, 60-days long before it gets to lease negotiation and signature. So I was encouraged by their comments and then I was very encouraged by then the signed lease results that we have thus far in the year.

That's a lot of leasing for us considering our occupancy is high and rents are high. No, I think on the ground and I know people are looking for signs that are confirming of what they read. You're not going to find them in our business or at least not at DCT, at least not yet.

Manny Korchman

Great, and then my second question is thinking about Houston. We've all talked about limiting exposure there. You guys have sold more there than you bought recently, but you did buy in Houston. Can you help us to think about what was unique about that asset or that opportunity that would make you buy into the market right now?

Phil Hawkins

Yes, it was a small acquisition that we initiated and actually executed a contract to purchase I'd say six months ago. One of the reasons why the rate was fairly attractive then and still attractive now was because we're willing to wait to further close as the seller was able to for tax reasons.

I would say today, Houston is not a priority but it isn't redlined. We like the market. We like the market long term. Certainly have some appreciation for potential risk, given where oil prices have come, but that market has been more resilient than anybody thought. We've looked at a couple of acquisitions. We have chosen not to pursue them but Justin keeps looking and for the right deal we'd probably consider it. It's a low priority, to be honest.

But that transaction you saw us buy is six months ago and we would probably think about it a little differently although even in hindsight, I'm pleased that we were able to do it. It's a long-term lease. Good rent bumps. Tenant put a lot of improvements in the space which creates a stickiness on renewal. There's a lot of reasons that we thought it made sense then, they still apply today, but obviously, I think the level of risk in Houston in my mind goes up as the price of oil goes down, which

has happened.

Manny Korchman

Maybe just as a quick follow-up. In those six months since you went under contract, how much more generally have you seen market cap rates move, I'm assuming upward, maybe not specifically for that deal?

Phil Hawkins

Not at all. Using our portfolio of sale of \$66 million, I would tell you that we set records on a per-square-foot basis. The portfolio had distribution and higher finish light industrial. The distribution building sold for a low-5% cap rate and the light industrial buildings higher finish sold for a mid-6% cap rate and overall blend at just a touch under 6%. I think both the broker we worked with and also Teresa Corral, who runs everything for us in terms of sales, both would tell you that that would indicate cap rates haven't moved a bit in Houston.

Manny Korchman

Thanks, Phil.

Operator

Our next question comes from Juan Sanabria from Bank of America. Please go ahead with your question.

Juan Sanabria

Hi, guys, thanks for the time. I think you made a comment in your prepared remarks about maybe seeing a little less buyers than one to two quarters ago. I was hoping you could expand on that and any insights as to the type of buyers that maybe have dropped out?

Phil Hawkins

I'm not sure any buyers have dropped out. What they're doing is being more focused with their time and maybe more focused with a strategy. Before, you'd see more buyers and some of which were probably more serious than others in reality, but they'd be competing on every deal. And today, I think they're slightly more selective.

I don't think any of the buyers that we saw active, they're not new to the space, but we didn't see anybody missing from the space. It's pension fund advisors, non-traded REITs, industrial product private funds, a number of which you guys are very familiar with, all very active. And it's just like I said, I think buyers are becoming more selective with their time, more focused, and then what happens is when they decide that's their kind of product, they play to win. And that's what we saw.

And as a result, that's why, I thought it was pretty notable and Teresa as well, that of the seven transactions we did, there was only one attempt at a re-trade and that one attempt went away quickly when we said no. That's a positive. But again, the number of buyers on each deal, I don't know, probably 10% less than it was, but still plenty of depth, it's just not the unlimited bottomless pit of buyers that we might have seen two quarters ago.

Juan Sanabria

Great, thanks. Then with regards to your guidance for 2016, I was hoping you could maybe expand a little bit on your market rent growth assumptions in terms of what you expect the overall market to do as well as expectations for releasing? Maybe if you could help frame that with regards to how much of the leases that are expiring in 2016 were done at the trough just to help us triangulate what you guys are thinking?

Matt Murphy

Yes, Juan. This is Matt. As you're probably not going to be surprised I'm not going to give you an exact answer to that question, a specific estimation of what I think roll over growth is going to be. But I do think I can give you some context that will help you think about how we think about it and what underlies our guidance assumptions.

First, I would say that, as I mentioned in my prepared comments, we feel pretty good about the supply/demand dynamics out there, particularly given the levels of vacancy or occupancy that are in the market today. And I think that is a mixture or an environment that will provide market rent growth that's going to be pretty good.

Hard to extrapolate what's happened in some of the hotter markets over the last few years. But that's just because the logic is that you return to the mean, not because that there's anything that would indicate on the ground that that's going to change. I think market rent growth we expect to be pretty darn good again.

I think the other thing to mention is that I like where our leases are rolling this year. Our single biggest exposure from a market perspective is Southern California. Frankly, as big as I think the next two combined. I love having leases roll in Southern California right now, so I think that will help.

And I think the final comment I would mention, is that when you look at rent roll over, an element of it that's obviously important is, what the comp is, what leases are expiring, what are you rolling off of? And I think what's probably surprising to most people, it was a little bit surprising to me as I dug into the numbers, is that when you look at what rolls and what's currently vacant in our portfolio in 2016, you've heard me talk about this before, I break it down into pre-recession, during the recession, and post-recession. In 2015, 33% of our leases that rolled, expired or were signed during the recession. In 2016, that percentage actually increases to 42%.

So I think there's a thought process if you think about the five-year lease average lease term that 2016, you're going to start to see more difficult comps. I think at least in our rent rolls, it's actually a slightly better comp, both in terms of geography and in terms of what the competitive set is than it was last year. That's as close to a prediction as you're going to get from me.

Juan Sanabria

Thanks, Matt.

Matt Murphy

But the Broncos are going to win. That I will predict.

Juan Sanabria

Can you give the point differential? Field goal win?

Matt Murphy

No. That sounds like gambling. I wouldn't do that.

Juan Sanabria

Good luck.

Matt Murphy

Thank you.

Operator

Our next question comes from John Guinee from Stifel. Please go ahead with your question.

John Guinee

Great, just two quick questions, first, I've now gone through your press release and your supplemental twice and I can't find any reference to a dividend per share. Then I went back a couple quarters and it looked like it was \$0.28 a share but it looked like it's now \$0.29. When did it change?

Matt Murphy

We announced that during our third quarter call.

John Guinee

Great. Well, congratulations. Thank you very, very much. And then the next question is, how long can it stay this good?

Phil Hawkins

John, we don't know. We certainly are hoping for the best, but as I tried to outline in my prepared remarks, making sure that we don't get too cocky as a company or hoping as a sector and not get over our skis, to use a different analogy from Colorado. That's why I think risk management and discipline are very important to keep talking about. It's also very important to keep honest dialogue from our market teams what's really going on.

And we do pay attention to key metrics; global trade, domestic freight transportation, the manufacturing index. We look at that stuff which is why I am at this point pleased with the way our business is going. I'm fully aware of the positive tailwind we're seeing from both e-commerce but also the benefits of cost reduction from continued reconfiguration of supply chains. It seems to be coming our way. But you read enough of the papers and the Internet and you can't feel too bullish.

John Guinee

Okay. And then I'm not sure I'm allowed this question but, music to my ears, no land banking. What is your land bank by your estimation and what do you have in that land bank which may just sit there for a while and won't be monetized quickly?

Matt Murphy

So, I think the way I would answer that John, it's Matt, is we have about \$7 million, between \$7 million and \$8 million in what we consider land held which is stuff that quite honestly, is probably unlikely to be put into production. The remainder is in active improvement with the expectation, not certainty obviously, that we move forward. I would argue the answer is effectively zero.

John Guinee

Wonderful, thank you.

Operator

Our next question comes from Craig Mailman from KeyBanc. Please go ahead with your question.

Craig Mailman

Hi, guys. Matt, just a follow-up on the roll for next year. That was helpful, the 42%. Just curious what you think the mark-to-market is on the 2016 roll?

Matt Murphy

I actually haven't bifurcated it by just the 2016 roll. I would say we go through an exercise on a quarterly basis where we're looking at in-place rents versus market rents. I would say that answer is mid-to-high single-digits for the entire portfolio. I think it's clearly quite a bit higher than that on the 2016 roll. I think both the comp, the comps that we're coming off of and combined with market rent, it has to be that way. But honestly, I've never looked at it just from a pure 2016-roll perspective.

Craig Mailman

Okay. And then separately, occupancies across the space have been trending high here and remarks seemed to indicate we're in a new normal for stabilized occupancies. I'm just curious, what you guys think maybe this current portfolio, what frictional vacancy could be? How much the move to infill from e-commerce guys could be a factor and maybe how much higher it could go? And what you think a decent stabilized average occupancy could be?

Phil Hawkins

My view is you can't talk about occupancy without also talking about rent. And I think for us, absent recycling which clearly has—we bought a building in Atlanta where we have a 400,000 foot tenant is moving out. We knew that when we bought it. That's why we got such a good price on it.

Our value-add activities and our recycling certainly move the number. But on a static basis, I think we can get it to 96% and still stay without being too aggressive and still push on rents. Can you get above that? We've seen some of our peers do it. Maybe, probably. I wouldn't bet on it or guide to it, but I think our guide's 94.5% to 95.5% in 2016, it seems about right.

Can we do better than that by the end of 2016 or sometime in 2017, if all keeps going well? Yes, I think we can by a little bit. But by the time you have downtime on spaces that we roll over, you've got spaces that whatever, no matter how great your portfolio is, just take a little bit longer to lease. I think it's pretty hard to get much above 96.5%, 96% without really counting your blessings if it does happen.

Craig Mailman

That's helpful, and maybe slip one more in there. The new leasing activity in January seems to be pretty brisk and matches relative to what you have in the model and what's embedded in same-store for the year. Does this put you ahead of that pace out of the gate?

Matt Murphy

I knew everyone of those was coming before it happened, so, no. No, I'm not kidding. None of those were a surprise.

Phil Hawkins

We aren't changing our guidance five minutes after the call.

Matt Murphy

Better said.

Craig Mailman

Alright, thanks, guys.

Operator

Our next question comes from Michael Mueller from JPMorgan. Please go ahead with your question.

Michael Mueller

Thanks. Sticking with that same prior question almost, just given the leasing that's occurred, what are

you thinking for the Q1 seasonal dip? How it's going to shape up this year compared to, say, last year?

Matt Murphy

I think it's actually pretty consistent, Mike. I think I probably mentioned I thought it was going to be 20 to 50 last year. I think 20 to 50 basis points. Sorry, thanks, Phil. It ended up being a little bit less than that. It feels like it's lining up the same way. The 400,000 that Phil talked about is definitely moving out, is likely to move out in the first quarter. We had 225,000 in Southern California that already did move out in the first quarter.

So we didn't really have as much seasonal leasing this year as we have in the past, where people will just take a four-month lease, put stuff on the floor for the holiday season. We didn't really have a whole lot of that this year. So I think that mitigates it a little bit, but I do think there's some big move outs that are going to happen in the first quarter which will probably drive down the first quarter occupancy a little bit. Hopefully, we find some fast-moving tenants that change that and it has happened in the past, but that's the way I see it right now.

Michael Mueller

Got it. Okay, and second, looking at the sub development page, you got close to \$400 million in process, I think it's \$387 (million) or so. How do you see that work in process number, the under construction number, trending over the next couple of years? Does it stay there? Does it gravitate a little lower? What are you thinking?

Matt Murphy

Yes. I think if you use guidance as the baseline, which is obviously the only thing I'm going to do, we have bunch of stuff that's in process that's leased that will deliver throughout the middle of 2016, which obviously that drives the number down. We've talked about a midpoint of \$200 million worth of starts this year, which you don't spend all \$200 million obviously this year. So I think the number does trend down.

If you assume where we sit today plays out the way industrial development sits, it will trend down. And then it's a matter of how does leasing go, how do the market fundamentals go, as to how we replace or how we continue on that track. But it feels like and if guidance is the right answer, the high point of what we have in process is about right now.

Michael Mueller

Okay, thank you.

Operator

Our next question comes from Ki Bin Kim from SunTrust. Please go ahead with your question.

Ki Bin Kim

Thank you, and good morning, guys. Just overall, where do you think your portfolio can go in terms of same-store NOI just over the next couple of years, not just 2016? And tied to that, what do you think rent growth was for your portfolio in 2015 and what do you project it to be, roughly, in 2016?

Phil Hawkins

When you say rent growth, do you mean market rent growth as opposed to rent spreads?

Ki Bin Kim

Yes, market rent growth.

Phil Hawkins

Market rent, even for us, it's impossible to measure market rent growth in a truly precise way since there's no reporting bank for real deals. Our sense is that market rent growth ranged from the high single-digits, maybe the mid-single digits, to low double-digits in almost all of our markets except Houston. There was a question asked about the budget assumptions and honestly, we don't think about market rent growth when we do the budgets. We look at what current market is.

I think that in 2016, I suspect on average, we'll probably be in the mid- to perhaps upper-single-digit range, hard to predict, as Matt said. Hard to predict double-digit rent growth. But it's also easy to conceive that being possible. You need a lot to continue which is demand surprise to the upside and then supply remaining in check which I think is likely but you need a number of things going for you. And now I forgot the other part of your question.

Matt Murphy

Same-store NOI growth.

Phil Hawkins

I think the way Matt's described it in the past. In a steady-state world, which we will probably never be in, where you get 3% market rent growth on 20% of your portfolio rounding up, that's at 1%, maybe a little under 1% of same-store NOI. And you get rent bumps that are now moving up, there's 2.2%—in 2015, it's really going to be more like, call it 2.5%. That gets you to 3.5%, so I would say 3% to 4% steady-state. We'll never be steady-state, but if we were ever to enjoy a year of purely steady-state, supply and demand in balance, rents moving up at a modest pace, rent growth, rent bumps thing in place, I think it's 3% to 4%. Matt, you've got a different—?

Matt Murphy

No. The only thing I'd say is I think bumps that are in the market today both in our rent roll today are better than 2.5%. I think it's probably closer to 3%. It's definitely somewhere in between there.

Phil Hawkins

Perhaps I was generous in rounding up.

Matt Murphy

I agree with what you said.

Ki Bin Kim

And just to clarify, when you said market rent growth was mid-to-low double-digit, are you talking about lease spreads or are you talking about market rent growth?

Phil Hawkins

I was answering your question which was market rent growth.

Ki Bin Kim

Okay. It just sounded a little—

Phil Hawkins

I want to be clear. Those who are on the call or reading it later or listening to it later, I think market rents, rental rates, went up pretty substantially by historical comparatives in 2015. And I said, I don't predict a similar robust year. I certainly hope for it and I think it's conceivable, but I wouldn't bet, I wouldn't be hanging my hat on that.

Ki Bin Kim

Yes. It's a surprising number because anytime you see the broker forecast or historicals, they always seems like 3% to 4% every year, not those numbers.

Phil Hawkins

That's what a lot of broker performers used to assume. Frankly, now that the brokers sales have much higher growth than none of us, well, we don't, copy, they've been more closer to right than we have. We've underestimated rent growth over the last several years in the way we've been buying.

We had some deals that I mentioned in the last call, several deals that we actually kicked a tenant that was negotiating to the curb because they were going slower than they promised and slower than we liked for another one. So in two or three months and the rents were going up 10% at the time. It was a very heady environment for class A space in 2015.

Ki Bin Kim

Okay, that's all very helpful. Just a last quick one, what percent of your leasing in general is being tied to e-commerce-related tenants nowadays?

Phil Hawkins

That's a really hard number to measure because clearly, when we lease to a UPS or FedEx or Amazon, we know how to count that as e-commerce or e-commerce-related. But there are other users, a lot of the 3PLs now are very involved in the omni-channel world, e-commerce fulfillment. It's really hard to measure. I've seen some people, some of our peers talk about 20% or 30%. I wouldn't be surprised if that's the answer. Matt, do you have any specifics?

Matt Murphy

No, I was just going to say, I wouldn't be surprised if that's the answer but I could never prove it. Because it's not like it's a discrete, sometimes it is, but it's becoming more and more ubiquitous and therefore, it's just embedded in the regular business that our customers are doing. You're seeing lots and lots of retail companies extensively expanding their e-commerce business to try and keep up with Amazon. And so it's just a part of a homogenous group, it's hard to tell.

Phil Hawkins

More and more mid-tier e-commerce retailers are utilizing third-party fulfillment. In fact, we've had a couple of tenants that we signed as they were e-commerce and they've since then assigned those leases and outsourced the fulfillment to others, recognizing that if you can't compete on the scale of Amazon, you better figure out a different way to do it.

And that's been going on. And clearly also, the brick-and-mortar retailers, some of the biggest ones are developing their own parallel supply chains. But others are choosing again, to go outsource in the third-party world, which again, it makes it much less transparent as far as what's really going on in these spaces.

Matt Murphy

I think there's another—seriously over answer the question, I think there's another really interesting trend that's going on that's really just starting, which is reverse e-commerce fulfillment. One of the challenges, obviously, of e-commerce is that people will buy things, they see if they like them and then they send them back. Warehouses typically aren't designed to do that very well.

It's creating a whole another, wave is too strong early, but there's a whole other phenomenon that's going out there where people are setting aside distinct facilities just for returns. I have no crystal ball

that tells you how big that's going to be but if you just think about the way that it works from your own personal experience, part of the reason this has exploded is because you now can return things that you don't like. I think that's really starting to put strain on existing distribution networks that I think honestly, produces more utilization of distribution space in reverse.

Ki Bin Kim

Okay, really great info. Thank you very much.

Operator

Our next question comes from Gabriel Hilmoe from Evercore ISI. Please go ahead with your question.

Gabriel Hilmoe

Thanks. Phil, maybe going back to an earlier question on the rent side of the equation. Do you think there's an opportunity going forward to get considerably more aggressive just pushing rents relative to where you have maybe the last 6 months to 12 months, or even have the opportunity to pull some leases forward? And beyond that, has there been any pushback on asking rents over the last few months?

Phil Hawkins

There's always pushback. The market leaders will tell you that we're pushing pretty hard. I don't think we've become more aggressive at all. I think we're pretty aggressive and I think it shows in the results. We remain sensitive to what the competitive set is looking like, who were competing against, if anybody, how our building stacks up and making sure we push as hard as we can.

I don't want to describe the environment as accelerating in that regard. I don't think it is at all. I think it's really healthy and it's staying healthy and I'm really pleased with that. The other question was—? I thought there was another. Oh, well.

Gabriel Hilmoe

Pulling leases forward, if there's an opportunity there.

Phil Hawkins

That's important and we've been talking about it more and more. We talked about it at our Board meeting this week. We talked about it at our Executive Team meeting a couple weeks ago. It's on the agenda for our Market Leader meeting in April. We talk about it all the time. That's what we call portfolio mining.

It's creating opportunities proactively and earlier than otherwise scheduled in our current portfolio. It is taking tenants that are underutilizing their space, letting them buy out. It's letting tenants who are expanding and we can't accommodate do the same thing. Trying to convert some of those into build-to-suits. We probably did a couple three or four at least, build-to-suits in the last half of the year with existing tenants.

Absolutely, an important opportunity at this stage in the cycle to both, on an offensive perspective, go after opportunities that earlier than otherwise they would come to us, or defensively, space that you really don't want to have come back and try to renew it early or you renew it early because you can get the rents. So, I think managing our current portfolio should always be a focus, but it's particularly a focus now given what's been going on in the marketplace.

Gabriel Hilmoe

Great. Alright, thank you.

Operator

Once again, if you would like to ask a question please press star and then one. To withdraw your questions you may press star and two.

Our next question comes from Tom Lesnick from Capital One Securities. Please go ahead with your question.

Tom Lesnick

Hi, guys. Matt, as we headed into the end of the year, obviously with unsecured spreads gapping out a bit, there was a lot of talk about term loans and clearly you guys did just that. Now that you're mentioning a potential public eligible unsecured issue for mid this year, just wondering how you're thinking has changed at all in that regard and what potential pricing might be?

Matt Murphy

Well, my thinking in that regard is that is exactly the right natural form of debt capital for a public REIT, particularly a public industrial REIT. And while the market has been a little weird for the last several months, you expect it to get back to a more efficient level over time which is why—to base assumption built into how I think we're going to about refinancing this year is a public bond deal.

I think it's an interesting—there hasn't been a lot of REIT deals done. You've seen obviously, the downward pressure, the lowering of Treasuries, spreads have definitely gapped out to some degree. To capture that, it's hard to really answer that question until you see or have more transactions happen. So I think the low to mid 4% range is what's inherent in my budget. I think that's a reasonable expectation. Hopefully, a little bit more conservative, but my crystal ball is not great. It's an interesting market.

One of the things I've talked about time and time again and I think it's a big part of the job is making sure that we have lots of optionality when it comes time to do stuff like that. So while I think the bond execution is the right execution, over time, year in year out, there are situations just like September and October, where it doesn't make sense and so you've got to make sure that you have other cards you can play. So, that's the way I'm thinking about it.

Tom Lesnick

Got it, makes sense. And then just a quick one on G&A, the midpoint of guidance obviously assumes a decline in G&A for this year. I was just wondering what some of the moving parts in that were, if you could just walk us through that?

Matt Murphy

I think the biggest thing is—I don't know how to say it, other than there's \$2.6 million in 2015 related to the fraud that damn well will not happen again. And so I think once you back that out, what you're seeing is a modest increase which is inflationary in nature, 2% to 3%, a little wider range given the range in guidance. But that's probably the piece that as you just try and compare 2015 to 2016, that's one element of it.

We had a couple of developments that we ended up killing that had what I think is probably a higher than normal impact on 2015. So again, that makes the comparison look better. That's another one that's really hard to predict because it just happens when it happens. But I think that's the biggest thing. I think you have to take out \$2.5 million in 2015 and then if you look at the run rate, it looks more inflationary in nature.

Tom Lesnick

Got it, Appreciate the insight. Nice quarter.

Operator

Our next question comes from Tom Catherwood from Cowen and Company. Please go ahead with your question.

Tom Catherwood

Excellent, thanks for taking the question. Taking a look at development, Phil, in your prepared remarks, you mentioned that you expect supply to remain in check. Taking a look through your markets, are there any that are giving you some concern or that you're focusing more on?

Phil Hawkins

Well, I think the one that I know our peers have flagged is in Dallas. But yet, demand has been very strong in Dallas and so it's in check. In fact, well in check. Neil, do want to talk a little bit more about Dallas? That would be the one market I would flag probably.

Neil Doyle

Sure. As always, Dallas is out there. I think the 50,000-foot level common wisdom is that Dallas has been balanced, will remain balanced through 2016 and then there's some cause for concern. But you do have to break it down by sub-market. If you look at the greatest spec exposure in Dallas, South Dallas is seven million of it, GSW is 4.5 million and North Fort Worth is 4.4 million.

So you've got 15 million of arguably the 20 million square feet available in three specific sub-markets, two with very limited barriers to entry. I think if you can keep a little closer eye on those and stay a little lower to the ground, you could still develop in that environment cautiously but effectively.

Phil Hawkins

And I would also just mention Atlanta for a second. Supply has picked up, still short of demand, but like Dallas, that supply is in big boxes north and south of the city center in Jackson County and Henry County, in non-infill-type locations. Where our focus is more urban infill, so one of plans we have is a couple hundred thousand-foot project we will start hopefully in Atlanta. We bought our partner out in the fourth quarter.

Our focus, just like Dallas, is going to be infill, smaller to medium-size boxes. If we can find an infill site that handles a large box like we did in River West in Atlanta, we would do it. We're pursuing a few things like that, but the focus will remain on more barrier to entry sub-markets of these markets.

Tom Catherwood

Got it, appreciate it. One other follow-up, over the past two quarters, you made solid progress leasing up your development pipeline and as you're saying, Phil, there's been a lot of big box demand. A lot of that fill up in your developed pipeline has been in your bigger projects. How would you classify the demand from larger users versus smaller users at this point in the cycle?

Phil Hawkins

I would say consistent. You're seeing good active big box demand, but you're also seeing very strong demand for more local and regional tenants. And we've seen across the board our buildings in the develop pipeline, it moves the needle fast when you lease a 750,000 foot building in Atlanta. We're leasing smaller buildings in Seattle, Dallas, Chicago, just as fast if not faster. As I said in my prepared remarks, demand is healthy across the size spectrum right now and I wouldn't pick on one or the other.

Matt Murphy

The thing I would add to that is that our occupancy in the smaller spaces both 25,000 below and 50,000 below is higher than it's been since the recession. It's improved dramatically over the last six months and 12 months. So there's clearly good leasing activity on smaller spaces.

Tom Catherwood

Understood, thank you.

Operator

And our next question comes from Ross Nussbaum from UBS. Please go ahead with your question.

Ross Nussbaum

Hi guys, good morning. Phil, can you talk a little bit about the inventory to sales ratio and specifically, that's a ratio that's been ticking up the last couple of years in the favor of landlords and industrial demand. There was a pretty big spike up into the end of 2015, as inventories perhaps got a little bit ahead of sales. Do you guys have a view on the sustainability of increases in that ratio or do you think we've exhausted the rebuilding of the inventory cycle and we're going to get a reversal? And how does that play out in terms of how you think about demand here, both this year and even as we go out a little farther than that?

Phil Hawkins

I think as I talked about, mixed signals, you put that into that category of a mixed signal. However, probably less of a concern when you think about e-commerce commanding increasing market share of the overall business, e-commerce does take up more warehouse space, not only because you're fulfilling out of there instead of a store, but you've got warehouses now, more and more warehouses closer and closer to the consumer in more and more markets, not just three or four throughout the country. And they need to assure availability to have same day delivery or next day delivery.

You've got more SKUs than ever. People want their color, their size, their configuration, whatever they're buying, now. And e-commerce, now more than ever, less so on sales taxes, they are competing on convenience and availability. And I think that has led to some, I can't tell you how much, some realignment of what might be normal. That's one of the costs of being an e-commerce company. You better have a delivery or you won't be around much longer.

I'm looking at Matt, he's got his John Elway shirt on. If you don't have a John Elway jersey for delivery tomorrow or today, you're not going to get the sale. And that's true in a lot of different businesses. Again, that's why I think signals are mixed. There's not an alarm bell saying, God, we're heading for a challenge. But nor are the signals so bright green that you have no worries and nothing to think about.

We've got plenty to think about and that's why I mentioned, I think risk management is very important. On the ground, execution and intelligence is critical and we're just going to keep going one step at a time and taking advantage of the opportunities we see and not being blind to the risks that may be out there.

Ross Nussbaum

Appreciate it, Phil. Thanks.

CONCLUSION

Operator

And ladies and gentlemen, at this time we've reached the end of today's question and answer session. I'd like to turn the conference call back over to Mr. Phil Hawkins for any closing remarks.

Phil Hawkins

Thanks. We went the full hour and I appreciate each of you joining our call today or listening or reading it in the future. Matt and I are available for any follow-up questions and we look forward to seeing many of you at the various upcoming Investor conferences in the next few months. With that, thank you and have a good weekend.

Operator

Ladies and gentlemen, that does conclude today's conference call. We thank you for joining. You may now disconnect your telephone lines.