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DCT Industrial Trust, Inc. *(DCT)*

Q4 2011 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the DCT Industrial Trust Inc. Fourth Quarter and Year-End Earnings Call. All participants will be in listen-only mode. [Operator Instructions] Please note that this event is being recorded.

And now I'd like to turn the conference over to Melissa Sachs. Ms. Sachs, please go ahead.

Melissa Sachs

VP-Corporate Communications & Investor Relations, DCT Industrial Trust, Inc.

Thank you, Keith. Hello, everyone and thank you for joining DCT Industrial Trust fourth quarter and full-year 2011 earnings call. Before I turn the call over to Phil Hawkins, our President and Chief Executive Officer, 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 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

President & Chief Executive Officer, DCT Industrial Trust, Inc.

Thanks, Melissa, and welcome, everyone. Joining me on the call this morning are Jeff Phelan, who heads National Development and our Western Region; and Matt Murphy, who is our CFO.

Jeff will provide additional insight into our value-add and development activities, which continue to progress very well. Matt will provide more details on the quarter, as well as our guidance for 2012.

I am very pleased to say that we had another outstanding quarter, with excellent progress relative to our operational and strategic goals. The U.S. economy and the industrial leasing market in particular have both proven to be much more resilient than any of us might have expected just a few months ago. The private sector is starting to generate new jobs, which is obviously critical, domestic manufacturing activity continues to expand, truck and rail volumes are showing good year-over-year increases as well. All this bodes well for a continued strengthening in industrial leasing fundamentals in my opinion.

With respect to DCT, our operating teams continued to deliver great results; highlights in the quarter included leasing of 3.9 million square feet of space, including 1.3 million square feet of new or expanded leases. For the full year, we leased 14.9 million square feet, an increase of 35% over 2010.

Occupancy increased in our total consolidated portfolio to 90.5% from 89.9% last quarter. Same-store occupancy increased to 90.9%, 210 basis points higher than a year ago. Same-store NOI increased 0.7% on both a cash and a

GAAP basis. Rents increased 3.8% on a GAAP basis and declined 8.1% on a cash basis. Tenant retention was 75.7% for the quarter and 74.1% for the year.

The first quarter has gotten off to a strong start with 1 million square feet of leases signed in January, including 500,000 square feet of new or expansion leases in what is typically the lightest leasing month of the year. We have signed an additional 190,000 square feet of new leases in February so far, as well as a number of lease renewals. Our pipeline of lease proposal and leases up for negotiation remains quite active as well.

Also encouraging to us is a noticeable uptick in activity from smaller, more regional or local tenants. They are becoming more optimistic about their business and certainly more confident in making decisions than they were a few months ago. This is an important trend that we hope will strengthen even more as overall confidence in the economic recovery continues to improve.

With respect to capital deployment, we continue searching for attractive opportunities in our focus markets and successfully closed four acquisitions in the fourth quarter, totaling $54 million and 550,000 square feet. These assets located in Seattle, the Bay Area, Chicago and Houston are expected to generate a year one yield of 6.9%. We have a good pipeline of potential acquisitions that we are working on as well, both stabilized and value-add.

While we have participated in a few of the larger portfolio auctions, I believe we will be – have more success utilizing our local teams and relationships to source one-off transactions. We remain focused on acquiring highly functional distribution assets in strong submarket at a basis below replacement cost. Some recent sales of Class A product in major distribution markets have occurred above replacement cost, a trend that is likely to continue at least in the foreseeable future.

While encouraging from a valuation perspective, I would rather focus our capital on opportunities to acquire value-add plays or develop new assets where we can create additional value than compete with the pension funds and other core asset buyers that are willing to pay materially above replacement cost for stabilized assets. In the long run, the industrial business is a basis game and we need to remain cognizant of that fact.

We also had a busy and successful quarter of selling assets. We sold 18 properties, including two held within joint ventures, generating proceeds to DCT of $111 million in the quarter. As a result, we have now sold all of our assets in Kansas City, all of our consolidated assets in Minneapolis and all but one small 80,000 square foot building in Charlotte. This last building in Charlotte is currently vacant and being actively marketed to users with a good amount of interest so far.

One of our key strategic goals has been increasing the percentage of our portfolio in coastal markets. Through both our capital deployment efforts as well as our recent asset sales, we have made substantial progress in this regard. Today, close to 40% of our NOI is generated in coastal markets compared to 32% two years ago and 35% one year ago. With development and value-add projects underway as well as acquisitions in the pipeline, I expect this number to continue increasing throughout 2012.

Another important strategic objective of our company is building our value-add and development business. We've made great progress, not only in sourcing attractive opportunities, but also in executing on each of the projects we have undertaken. This effort is led nationally by Jeff Phelan, who will provide an update and some additional insights on our value creation activities in a moment.

In a market where the vast majority of investors place an historically high premium on stabilized assets, we have an opportunity to add DCT to leverage our people, relationships and capabilities to create value through acquiring under-leased assets, assets which are well-located, but can become much more functional through renovation or redevelopment and by developing new assets in strong infill locations.

I am pleased with the substantial progress that we made in 2011 towards our strategic and operational goals and are excited about the opportunities in front of us. Our focus remains the same, aggressively manage our existing portfolio and look for opportunities to profitably deploy the capital into acquisitions and development projects where we can create value over time. I realize this is simple to say, but harder to accomplish. However, I'm confident in our company's ability to deliver on those promises.

With that, let me now turn the call over to Jeff Phelan for some additional commentary on our value-add and development activities. Jeff?

Jeffrey F. Phelan

National President of Developmnet & Managing Director, West Region, DCT Industrial Trust, Inc.

Thanks, Phil and good morning to everyone. As Phil mentioned, we are continuing to build our development and value-add platform in our U.S. focus markets. We are excited and pleased about our proven successes in this area during 2011. We are striving to build Class A buildings in excellent locations in low vacancy markets.

I will provide an overview of both value-add and development projects, starting with examples on the West Coast and moving East, until we reach Miami. We have several examples we are showcasing our current development capabilities. First in Southern California, we continue to obtain our entitlements and building permit to start construction on a 652,000 square-foot cross-dock building in the Inland Empire West submarket. We plan on starting construction for this building in the third quarter of 2012.

Next, I want to update you on the developments in Houston, one of our most active leasing markets in the U.S. today. Construction is currently underway in North West Houston for a 267,000 square-foot cross-dock distribution building referred to as the DCT Northwest 8 Distribution Center.

Also in Houston, we closed escrow in the fourth quarter on the purchase of 13 acres of land for our second phase of bulk distribution buildings in the north submarket of Houston, the DCT Airtex Industrial Center. We are currently entitling this land and plan to start construction on a 267,000 square-foot building in 2012.

In Washington DC, we currently finished construction on two buildings, totaling 178,000 square feet for our Dulles Summit Distribution Phase 2 project. We are in final negotiations to pre-lease both buildings to a large Fortune 500 company.

In New Jersey, we acquired a 330,000 square-foot value-add building in the Meadowland submarket in the first quarter of 2011. This transaction was a sale lease-back for one-year term on 100,000 square feet and a five-year term on 230,000 square feet. We are currently in negotiations with a tenant for a long-term lease for the 100,000 square feet. In Miami, we finalized a lease transaction in the fourth quarter for a value-add 100,000 square foot building with a 15-year lease term with Univision.

In addition, in 2012 DCT will start construction on a 167,000 square foot building in the Airtex West submarket of Miami. The result is a high yielding Class A building in a Class A location, in a high barrier market. All of the transactions I mentioned are outstanding examples of how our development and value-add business continues to flourish. Through our local DCT teams, we are sourcing and successfully executing high quality, well-located, value-add and development projects generating attractive returns to creating a significant value in the process.

I'm very proud of the progress our local DCT teams have made in the development and value-add sectors and look forward to sharing our 2012 success stories with you in the near future. At this time, I'd like to turn the call over to Matt Murphy.

Matthew T. Murphy
Chief Financial Officer, DCT Industrial Trust, Inc.

Thanks, Jeff, and good morning everyone. We are very pleased with our results in 2011 and continue to be encouraged by the improvements in our portfolio, as well as the fundamentals in our business. Funds from operations was $0.11 per diluted share for the quarter and $0.40 for the year, beating our guidance by a penny. Total occupancy increased 60 basis points this quarter to 90.5% and we have an additional 0.9% of our portfolio leased, but not yet occupied. This is the seventh consecutive quarter that our total consolidated occupancy has increased.

As Phil mentioned, we sold a building in Cincinnati during the quarter that was held in a joint venture. The sale resulted in a recognition of a deferred gain of just under $700,000 that flowed through equity and earnings on the income statement. As this asset had not been previously depreciated when it was contributed to the joint venture in 2007, the gain was included in fund from operations.

Same-store net operating income continued its positive trend during the fourth quarter. As you'll recall, GAAP same-store growth turned positive in the third quarter and same-store net operating income growth turned positive on a cash basis in the fourth quarter, posting an increase of 0.7% as free rent or reduced rent period on existing leases continue to burn off and concessions on new leases are declining in most markets. Average occupancy of same-store pool was 90.3% in the fourth quarter or 230 basis points greater than the same period of 2010. 12 of our markets experienced positive cash store – positive cash same-store growth in 2011, including all five of our largest markets in terms of annualized base rent. It's important to note that our same-store pool does not include any development or redevelopment buildings until they have been stabilized throughout both periods.

In terms of rent growth, GAAP rent growth for the quarter was a positive 3.8% and down 8.1% on a cash basis. However, as we've said many times, cash rent growth is a tricky statistic. The calculation of this metric is the first rent amount for a given lease compared to the last check written under the previous lease. In today's environment where introductory or teaser rates are very commonplace, this doesn't necessarily paint an accurate picture.

To illustrate this point, excluding leases that are in free rent periods, the average cash bump in our lease portfolio at 12/31 is 6.1% as opposed to probably the 2% that has been considered the norm. This translates into an additional $4.2 million of cash rent that will be collected this year compared to the year-end run rate. The annualized number is almost half again that large.

The bottom line is the cash rent growth, as we and I believe everyone else calculates it, is a somewhat flawed statistic. The real key is cash same-store growth and our estimate is that cash same-store growth will be at least 100 basis points higher than GAAP growth in 2012.

Activity was fairly light on the capital markets front for the quarter as we did most of the heavy lifting during the first nine months of the year. However, we did execute on one transaction that's worth a little more discussion.

The acquisition that Phil mentioned in the Bay Area was structured as an OP unit deal, but also included mortgage financing. The financing was for 10 years with an interest rate of 4.25%, which demonstrates the kind of favorable financing that's available today for the right real estate. Also the UPREIT structure was an excellent example of DCT's ability to creatively and profitably accommodate a seller circumstances in order to acquire a phenomenal piece of real estate. We continue to create value through our willingness and ability to find off-market transactions and overcome the challenges necessary to bring them into the fold.

Looking forward to 2012, our guidance for funds from operation remains unchanged at $0.36 to $0.41 per diluted share. Our strong fourth quarter puts us slightly ahead of our expectations with regard to occupancy and we entered 2012 with excellent momentum.

We have a little over 10.5 million square feet of leases expiring this year, which represents just over 20% of our annualized base rent. These expirations are fairly front-end loaded and therefore we expect occupancy will dip slightly early in the year and build to a little over 93% by year-end. We still feel good about our estimate of same-store growth of 0% to 3%, and continue to be encouraged about the prospects for meaningful longer-term cash-flow growth as the markets continue to firm up.

Finally, we're still comfortable with our assumption of $50 million to $150 million of acquisitions during 2012 and $50 million to $100 million of development starts during the year. We're a little ahead of our plans in terms of guidance on the disposition front. And our ability to simultaneously manage the timing of dispositions and deployment will be a significant determinant of the amount of short-term dilution our capital recycling efforts will have on 2012 results. We have a great deal of work to do in 2012, but we're off to an excellent start.

With that I'll turn the call back over to Keith for any questions. Thank you.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And the first question comes from Ki Bin Kim of Macquarie.

Ki Bin Kim
Analyst, Macquarie Capital (USA), Inc.

Q

Can you just talk a little more about your development projects that you have in the pipeline? What kind of volumes are you looking at in total and yields? And if you can kind of split the construction cost or development cost between land and construction as well.

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.

A

Matt, do you want to?

Matthew T. Murphy
Chief Financial Officer, DCT Industrial Trust, Inc.

A

Yeah. Ki Bin, hey, this is Matt. I'll take the volume part of that. As we talked about, we started two deals in 2011 and have really four other projects in the pipeline in certain stages. As we've said, we'll do between $50 million and $100 million worth of starts this year, which obviously excludes the ones from last year. Jeff, you want to take the second part of that?

Jeffrey F. Phelan
National President of Developmnet & Managing Director, West Region, DCT Industrial Trust, Inc.

A

Which part was the second part?

Ki Bin Kim
Analyst, Macquarie Capital (USA), Inc.
Q

The yields.

Jeffrey F. Phelan
National President of Developmnet & Managing Director, West Region, DCT Industrial Trust, Inc.
A

The yields that we're getting in these particular markets are typically around 100 basis points over and above what the market will bear as far as returns in those particular sub-markets. So we feel through the development process and the value-add process that we're obtaining yields that are over and above what the markets will pay for those particular assets of typically [ph] 100-150 basis (18:37) points. Yeah.

Ki Bin Kim
Analyst, Macquarie Capital (USA), Inc.
Q

And in terms of land versus construction cost, how does that split look like and are you doing anything to, in terms of like, locking in today's commodity rates or things like that?

Jeffrey F. Phelan
National President of Developmnet & Managing Director, West Region, DCT Industrial Trust, Inc.
A

Matt, do you want to answer that?

Matthew T. Murphy
Chief Financial Officer, DCT Industrial Trust, Inc.
A

Go ahead, Jeff. Yeah.

Jeffrey F. Phelan
National President of Developmnet & Managing Director, West Region, DCT Industrial Trust, Inc.
A

Okay. So as far as the construction cost, we're seeing really no increases in those commodities today. We're actually seeing, in some cases, a decrease in some markets bidding out the projects through the general contractors we're still finding very aggressive in today's environment.

Ki Bin Kim
Analyst, Macquarie Capital (USA), Inc.
Q

Okay. Thank you.

Operator: Thank you. And the next question comes from Jamie Feldman from Bank of America Merrill Lynch.

Jamie Feldman
Analyst, Bank of America Merrill Lynch
Q

Great, thank you. So Phil, you were commenting more of a pick-up from regional and small and medium-sized businesses, which we've been hearing from brokers as kind of the key to the warehouse recovery really taking hold here. Can you talk a little bit more about what you're seeing and what do you think it means for 2012 and beyond?

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.
A

Well, I think it means more demand. To me, I think I've said in the last quarter or two, we've had a great run with the large well-capitalized bulk users and they've been chewing up big amounts of space, they led us into the downturn probably along with the development of those types of buildings, but then they also have led us out of the downturn. And what it took – what it takes to get to the next step, I believe, is those tenants who are smaller, perhaps maybe a little more regional credit that are then looking to lease spaces that are – the 25,000 to 50,000 or 100,000 foot spaces that we need and everyone needs to take our occupancy in to next level.

So I think it's absolutely critical. I think it's absolutely dependent on the economy and I think the confidence people have gotten in many aspects of the economy over the last few months has really helped. Yeah, they're making decisions based on economic transparency as opposed to the larger guys that are in many ways making decisions to save costs and may not need economic growth or economic confidence to make decisions, they're just trying to squeeze money out of their supply chains. For a smaller guy, that's not the case.

And boy, has there been a shift and I hope it continues. A few months ago, people were scared to death of Europe, scared to death of even the U.S., the downgrade and our own political and debt issues and debates, the Middle East, I mean it seems like people were looking for reasons in the third quarter and into the fourth quarter, looking for reasons to be pessimistic. And it certainly it seems to have changed in the U.S.

Matthew T. Murphy A
Chief Financial Officer, DCT Industrial Trust, Inc.

Jamie, this is Matt, another thing I might just kind of put numbers to what I think Phil articulated from a story perspective, our – spaces under 25,000 square feet, which obviously only make up about 1% of our portfolio. Those increased at an occupancy basis, almost 200 basis points during the quarter. If you'd move that number up to 100,000 square feet and under, it was just under 1%, 90 basis points of occupancy increase as opposed to the 60 basis points overall. So again, I think as Phil said, you're really starting to see the 100,000 and below represents about 20% of our portfolio. So you're really starting to see some meaningful growth in kind of that bottom end of the spectrum, if you will.

Jamie Feldman Q
Analyst, Bank of America Merrill Lynch

Thanks. So if you think about your markets, can you quantify – I mean, it sounds like there's some pent-up demand from that group also, I think there is [ph] Prologis (22:35) had mentioned. Can you quantify like if you were to think about your markets on average, like how much more occupancy growth we could see just from that pent-up demand before they kind of normalize their usage?

Matthew T. Murphy A
Chief Financial Officer, DCT Industrial Trust, Inc.

I think it's hard to – I mean, I guess the way I might put it is that our 100,000 square foot portfolio is about 85% occupied today. As I said, that represents about 20% of the portfolio, certainly getting that number above 90% seems very plausible and realistic to me. I don't split it necessarily that way on a market by market basis, but that's a couple hundred or between 100 and 200 basis points of occupancy on the overall portfolio just on that. And it's not like I don't think there is a little bit of headroom. We're at 9 – just under 92% on 100,000 square feet and above, so it's not like there's not headroom above that number either.

Jamie Feldman Q
Analyst, Bank of America Merrill Lynch

Okay. And then we're expecting the January 1 dip in occupancy across all the warehouse REITs. How is it looking this year for you guys and just across your markets? And then is there anything different in terms of who's giving back space and who's not?

Matthew T. Murphy
Chief Financial Officer, DCT Industrial Trust, Inc.

A

Yeah, again, from a purely numerical perspective, so we've got about 10 million square feet expiring during the year. Four million of that is in the first quarter. So I think in order of magnitude, you're looking at 100 to 200 basis points, 200 I would suspect is on the high side. Frankly, we thought the same thing last year and it didn't materialize to the degree we thought. But you could see that certainly the number dip below 90% a little bit in the first quarter. And as I mentioned, we're talking about it expanding up to 93% plus by year-end.

Jamie Feldman
Analyst, Bank of America Merrill Lynch

Q

Okay. And then what are you guys seeing in terms of leasing cost and net effective rents at this point of the cycle?

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.

A

Yeah, I think like you would expect with increasing demand and reduced vacancy in the markets, you're seeing firming up in leasing economics in general and beginning improvement in many markets, a number of markets. Certainly rents' an easy factor to look at, but also turnover costs in general are firming up, concessions are firming up. And so I think that clearly as the market continues to recover, we should continue to see improvement there.

Jamie Feldman
Analyst, Bank of America Merrill Lynch

Q

And do you have a sense of where your net effective are today versus last year?

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.

A

Net effective in terms of new leases or...

Jamie Feldman
Analyst, Bank of America Merrill Lynch

Q

Well like your rents when backing out the leasing costs, kind of like your economics on leases.

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.

A

We don't have a metric. I would say that given our improvement we went over in rent comparisons that they're up, but I don't – we don't have a number.

Jamie Feldman
Analyst, Bank of America Merrill Lynch

Q

Okay. Got it. Thank you.

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.

A

Yeah, thanks.

Operator: Thank you. And the next question comes from John Stewart from Green Street Advisors.

John J. Stewart
Analyst, Green Street Advisors, Inc.

Q

Thank you. Maybe this is for Matt, I guess. First of all on the acquisitions, just curious given that these are all 100% leased, you talked about a 6.4% going in yield, but 7.6% stabilized. So I'm just wondering what – is there some imminent move out or how do you get from 6.4% to 7.6%?

Matthew T. Murphy
Chief Financial Officer, DCT Industrial Trust, Inc.

A

It's really going to have to do with sort of a stabilized market rent. So the numbers that – the in-place rents in certain of these assets, actually the majority of our assets are stabilized, but it's really had to do with the stabilized market rate.

John J. Stewart
Analyst, Green Street Advisors, Inc.

Q

And what – over what timeframe do you expect to get there? I mean are we talking 2012 rollover or is this long-term?

Matthew T. Murphy
Chief Financial Officer, DCT Industrial Trust, Inc.

A

No, most of these have rollover that's later than that, so in the stabilized number is arguably somewhat theoretical, so it's over the lease term which has some roll in 2012, but in many cases it rolls out as far as a couple of years into the future.

John J. Stewart
Analyst, Green Street Advisors, Inc.

Q

Okay. Thank you. And similarly on the cap rate quoted on the dispositions just seemed curiously low, given the mix of markets that we're talking about here. Is there a similar issue where maybe these assets are under-rented or what's – given 92% occupancy, can you help us understand the cap rate on these asset sales?

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.

A

Well, in part, Charlotte was under – was not stabilized. So that will influence it.

Matthew T. Murphy
Chief Financial Officer, DCT Industrial Trust, Inc.

A

Another one is there's a big piece of that was a user sale on 1 million square footer in Nashville that ultimately those buyers don't necessarily pay investor returns. It's more about what the business means to them; that clearly brought the average down.

John J. Stewart
Analyst, Green Street Advisors, Inc.

Q

Okay.

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.
A

So that was – Nashville, for example, was sold at a sub-5 cap rate on in-place rents, which clearly is at a very attractive sale relative to what we or maybe other investors might value it at, which is why it was an easy decision to make in that regard.

John J. Stewart
Analyst, Green Street Advisors, Inc.
Q

Sure. And then along the same lines, you obviously didn't sell everything in Nashville and San Antonio. Can you give us a little bit of color in terms of what you had on the market and the depth of demand, your ability to sell the rest of what you'd like in those markets?

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.
A

Well, we actually – we did not market anything in Nashville. So we – the sale in Nashville is strictly to a tenant, the user, and so there is nothing we didn't sell. We did have other assets in San Antonio that we did not sell and two reasons, one is that there is some lease rollover coming up, and there's some actually known vacancy that our team felt quite confident in. In fact, we're in the final stage, I think of leasing that up.

Second, there was in that market, a bifurcation between newer product and older product and what we kept was, from an age perspective, not as new. But it's a product that we liked, so we showed – our team says – they wanted to keep leasing and own it, so it was our decision not to sell it. But the cap rate there would have been higher than the cap rate on the asset we sold – that we did sell in San Antonio.

John J. Stewart
Analyst, Green Street Advisors, Inc.
Q

Okay. How much higher?

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.
A

50 to 75 basis points on a stabilized basis. What was sold in San Antonio also was – I want to say it was 80% leased, something like that. So that was – that cap rate obviously is that – the in-place cap rate was relatively low. But on a stabilized basis, I would say probably 50 basis point difference.

John J. Stewart
Analyst, Green Street Advisors, Inc.
Q

Okay. And, Matt, a quick clarification; so your 0% to 3% same-store guidance, that's the GAAP number, is that right? And so then, when you're saying cash will be at least 100 basis points higher, you're talking 1% to 4% cash same-store growth for 2012, is that right?

Matthew T. Murphy
Chief Financial Officer, DCT Industrial Trust, Inc.
A

Well, the guidance was 0% to 3% on both cash and GAAP, which obviously you can do the math. So GAAP will be on a lower end of that, cash will be on the higher end of that. But they are both scheduled to be within 0% to 3%.

John J. Stewart
Analyst, Green Street Advisors, Inc.
Q

I see. Okay. And then lastly, Phil, you're sounding a pretty upbeat tone here talking about the resiliency of the industrial fundamentals and uptick in smaller businesses and obviously you're becoming seemingly a bit more confident about the development projects that you've got underway. And I guess the question is what – you're obviously not the only sounding this kind of a tone, and what's your sense for the amount of new supply that you expect to see break ground to this year?

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.
A

I think it's going to remain, one, relatively modest and two, relatively focused in markets that have – that are well underway into the recovery. And those markets are difficult to build in. Jeff just talked about a project he's been working on for a year in San Bernardino and the zoning and planning process is taking longer. Frankly, the municipality has laid off a number of people in the last several years and they're understaffed relative to their ability to get things through. It takes time to get zoning and we went for an upgrade in density on that project, that took some time.

The project in Miami, which we are hoping to start kind of late second quarter, somewhere in the second quarter, same similar story, it just takes time to get things through Miami. And so that's where people are building. Clearly, Houston has got a number of different projects, leasing velocity has been strong; there's probably been more supply there on a percentage basis than other places. Pennsylvania, there's been some construction typically at larger buildings. We don't have anything there, so it's harder for me to comment, but there's been a few there, but it's – on a relative basis, relative to both total stock, as well as relative to net absorption in the marketplace, it's still pretty small. We'll continue to look at it. We're quite focused on the market fundamentals before we – as we buy land and then more importantly before we start construction. But insofar, I don't – I think you're seeing – what you're seeing is public companies who have got balance sheets are able to do it, it's harder and harder for those without balance sheets to get financing to do something like that, although there's some of that, too.

John J. Stewart
Analyst, Green Street Advisors, Inc.
Q

Thank you.

Jeffrey F. Phelan
National President of Developmnet & Managing Director, West Region, DCT Industrial Trust, Inc.
A

I think the other thing, too, John, is that you're going to find in those environments, you're still going to have continued land constraints. So I think because of that, that mechanism will allow that development, I think, to be slow and [ph] methodical (32:58).

John J. Stewart
Analyst, Green Street Advisors, Inc.
Q

Yeah, I was going to say.

Jeffrey F. Phelan
National President of Developmnet & Managing Director, West Region, DCT Industrial Trust, Inc.
A

So, again, you've got to remember the markets we're talking about.

John J. Stewart
Analyst, Green Street Advisors, Inc.

Q

Got it. Thank you.

Operator: Thank you. And the next question comes from Brendan Maiorana from Wells Fargo.

Brendan Maiorana
Analyst, Wells Fargo Advisors LLC

Q

Thanks. Good morning. A question, I guess probably for Matt, but maybe Phil too. You guys sound optimistic as a number of folks have pointed out, your results in the quarter were above your expectations. What kind of drives you down to the low end of guidance and was there anything that would cause you not to raise the low end of guidance given the success that you've had and the positive outlook that you have?

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.

A

This is Phil. We clearly thought about it, but here we are one month into the quarter – into the year.

[Audio disturbance] (33:34).

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.

A

Thank you. Well, how easily I can lose track, but -

Brendan Maiorana
Analyst, Wells Fargo Advisors LLC

Q

The guidance question.

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.

A

The fact is, as Matt tried to say, we feel the range is still relevant. I feel better about being at the middle or upper end of that range today, but a lot can happen and I'm not – we felt it was not the right time to be changing guidance, but clearly we feel better today about the future than we did in October when we issued the last guidance.

Brendan Maiorana
Analyst, Wells Fargo Advisors LLC

Q

Sure.

Matthew T. Murphy
Chief Financial Officer, DCT Industrial Trust, Inc.

A

Brendan, the only thing I might add to that, well, is the other piece of this that will potentially trend us towards the lower end of the guidance is the mechanics of the capital recycling program that we've talked about. As I mentioned, we are a little bit ahead on the disposition front, which is obviously diluted in the short-term and we continue to see the importance from a strategic perspective of moving forward in that, so don't want to foreclose on the opportunities that we might see in that regard. So again, with Phil, share we have a lot of discussions about this, feel good about where we're at, but it's February 10. It's little early for the touchdown dance, something we'll continue to look for or look at.

Brendan Maiorana — Q
Analyst, Wells Fargo Advisors LLC

Well, I am a Giants fan, but – so I guess is it fair to sort of say that from an operational standpoint, you guys kind of feel confident in the middle half to upper end of the range, but just the balance sheet side of things could cause things go to the lower end?

Philip L. Hawkins — A
President & Chief Executive Officer, DCT Industrial Trust, Inc.

Again, I'm not trying to change guidance, but certainly we feel better about the world than we did a few months ago.

Brendan Maiorana — Q
Analyst, Wells Fargo Advisors LLC

Right, okay. But then my next question is just related to the FAD level or AFFO level, which you guys don't provide that metric, but you provide us the components to get there relative to the dividend. And if I look at the full year 2011, it's probably about $25 million short and you had good leasing volume. And Matt, as you mentioned, you're going to have $4 million more or $4 million or $5 million more of cash rent come on, so that straight line rent number will go down, but it still seems like that's an awfully big spread to kind of make up. Can you kind of give us a sense of what would get you to positive dividend coverage as you look out over the next couple of years and is that something that can be made up?

Philip L. Hawkins — A
President & Chief Executive Officer, DCT Industrial Trust, Inc.

Yes, I do believe it can be made up or else we have a different discussion.

Matthew T. Murphy — A
Chief Financial Officer, DCT Industrial Trust, Inc.

Yeah, I think the other thing to keep in mind is the $4 million that we talked about was just sort of the teaser rate piece of it. That is in addition to the $5.6 million that's in free rent. So you're talking about $10 million of latent capacity in the existing portfolio today and then you sort of layer cash same-store growth on top of that, and you get to a number that is in the neighborhood, gets the dividend coverage as the year progresses. It's clearly something we think about and yeah, we do believe that the math works.

Brendan Maiorana — Q
Analyst, Wells Fargo Advisors LLC

But sorry if I'm misunderstanding. So I understand the teaser rate in the straight line rents, but isn't the cash same-store inclusive of those benefits?

Matthew T. Murphy — A
Chief Financial Officer, DCT Industrial Trust, Inc.

Yes.

Brendan Maiorana
Analyst, Wells Fargo Advisors LLC
Q

Right. So that's about $10 million, but you guys are -

Matthew T. Murphy
Chief Financial Officer, DCT Industrial Trust, Inc.
A

Oh, well, the cash – the teaser rates, that's implicit today, the cash same-store growth also adds over and above that number. I mean, you're right. They are components of the same thing.

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.
A

Brendan, you said – you used the word several years. I think that over that timeframe, believe me, if we felt that we didn't have a clear path, we would be having a different discussion. That's not our belief. That's not the way we're looking at the world. We understand both from a NOI perspective as well as from the leasing cost as we've leased up a lot of space that AFFO as most people calculate it, fall short of a dividend, but we do believe that over the – in the foreseeable future, next 12 to 18 months, we're feeling better by getting – narrowing that gap and getting a lot closer and eventually getting to a comfortable dividend coverage.

Brendan Maiorana
Analyst, Wells Fargo Advisors LLC
Q

And is the -

Matthew T. Murphy
Chief Financial Officer, DCT Industrial Trust, Inc.
A

One other thing I'll mention, Brendan, I'm sorry, because I realized what I – the piece that I didn't communicate today, intended to, from a same-store perspective, you're right. The other piece of it, as I mentioned, we don't have developments in our same-store pool. We had 2 million square feet that are in our operating pool today that aren't considered same-store because as I mentioned, they weren't stabilized throughout both periods, but that's another 2 million square feet that will contribute additional cash flow to the company that doesn't – that isn't either incorporated in the cash – the free rent shortfall nor same-store growth. So that's another piece of the puzzle you might not be thinking about.

Brendan Maiorana
Analyst, Wells Fargo Advisors LLC
Q

Yeah, no, that's helpful. And then, I mean is a component of it, too, just having the capital costs, the leasing costs go down over time, like is that a component that kind of has to happen to get you to positive coverage or should happen?

Matthew T. Murphy
Chief Financial Officer, DCT Industrial Trust, Inc.
A

Yeah, absolutely. I mean, again, I think on a per square foot basis, the numbers make sense today as we continue to have net absorption in the portfolio, the opportunity for those costs go down. So that's absolutely part of the equation.

Brendan Maiorana
Analyst, Wells Fargo Advisors LLC
Q

Sure. Okay. All right, great. Thank you.

Operator: Thank you. And the next question comes from Michael Mueller from JPMorgan.

Michael W. Mueller
Analyst, JPMorgan Securities LLC

Q

Hi, following up on a couple prior questions, for TIs and leasing commissions CapEx, can you talk about a number for 2012, what you're expecting?

Matthew T. Murphy
Chief Financial Officer, DCT Industrial Trust, Inc.

A

As you know, Mike, we don't guide to that number. As I said on the call last time, I think in a absolute dollar perspective, you would expect the number to be similar, but a little bit lower in 2012 than it is to 2011, but we don't guide to that.

Michael W. Mueller
Analyst, JPMorgan Securities LLC

Q

Okay. And sticking with dispositions, any commentary? I think you made the comment that dispositions were ahead of plan. Can you talk about anything that's closed so far this year as well as what you – how front-end loaded we could see the dispositions be in 2012?

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.

A

Nothing has closed yet this year...

A

One little tiny building.

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.

A

One little building, okay. We've got two projects that are being marketed in under a either close to or in LOI. Whether or not they close, don't know, but – and that's all we're marketing at this point. We've held off putting anything else on the market, frankly, until we catch up on the deployment side but what we have marketed, we've put on the market in the fourth quarter, so far appears to be going well and we are certainly at this point happy to be in agreement to sell.

Michael W. Mueller
Analyst, JPMorgan Securities LLC

Q

Okay. So when you talked about being ahead, is it more along the lines of you've identified – you're ahead in terms of identifying assets you want to sell where you have identified projects to buy to offset that, so you're really trying to match fund, but you're just a little further ahead in terms of identification on the sell side as opposed to the buy side?

Matthew T. Murphy
Chief Financial Officer, DCT Industrial Trust, Inc.

A

Yeah. I would say it's on execution as opposed to identification. So what we talk about being ahead, it's both – the plan was obviously as we articulated in the last call to do it on a match funding basis. We have sold more than we acquired, sort of since that clock started running, and so we've executed on more our pipeline, as Phil mentioned on the deployment side is healthy. We just – as we stand today, we've closed more – more than we have deployed and that we had – than we had planned to close in relation to guidance. That was the only point I was making on the script, it was relative to guidance.

Michael W. Mueller
Analyst, JPMorgan Securities LLC

Q

Okay. Well, the guidance was for 2012, right, and it seemed like you were ahead of plan and that was a lot sold, but it was in the fourth quarter.

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.

A

Well, but we sold more in the fourth quarter than we expected. For example, the Nashville sale, we'd expect to actually close in April and that's what the tenant told us, they were looking to do and they ended up needing to and wanting to close in December. We would rather have pushed it out, on the other hand, I love the economics and the ability to sell a million footer in Nashville that essentially didn't fit into our long-term plans, anyway. We took it, but it wasn't ideal from a timing perspective.

Michael W. Mueller
Analyst, JPMorgan Securities LLC

Q

Okay. So if we're thinking of calendar year 2012, stuff from 12/31 going forward, what's the disposition guidance then, as it gets adjusted a little bit?

Matthew T. Murphy
Chief Financial Officer, DCT Industrial Trust, Inc.

A

Well, I think the way that I would think about it, we didn't give specific disposition guidance, but you can obviously do the math from a match funding of what we were doing on the acquisition and development front. I think the way to think about it is all of those numbers were in the future when we gave them. So what we sold $77 million in December was really part of the guidance that was for 2012. So I don't think the guidance – if you – so I still think that the guidance is basically unchanged, just a matter of timing. Literally, most of these dispositions happened in the last couple of weeks of December.

Michael W. Mueller
Analyst, JPMorgan Securities LLC

Q

Okay.

Matthew T. Murphy
Chief Financial Officer, DCT Industrial Trust, Inc.

A

They were all part of the same thing. I was not making that distinction because I wasn't thinking about the exact closing timing of it.

Michael W. Mueller
Analyst, JPMorgan Securities LLC

Q

Okay, got it. And last question, just anything different in terms of marginal cap rates on the sales?

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.

A

In terms of going forward or -

Michael W. Mueller
Analyst, JPMorgan Securities LLC

Q

In terms of going forward, yeah.

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.

A

You're going to see a mix. There are some assets that we've got on the market today that are – will be higher cap rate type assets, service center, kind of non-distribution assets that will have higher cap rates. We've got a few assets that are I think in good grade assets and that will probably go at a lower cap rate. So you'll see a mix. But in general, the guidance we gave was – did we give a guidance on spread? We didn't, okay. So, sorry.

Michael W. Mueller
Analyst, JPMorgan Securities LLC

Q

Okay. That's great. Thank you.

Operator: Thank you. And the next question comes from [ph] Andrew Pyke (44:22) from Stifel Nicolaus.

Q

Hey, guys. You kind of answered my question here, but just on the leasings, so you had $1.87 in 2010, $1.78 per square foot in 2011. Is this is kind of a good run-rate going forward? You said it was going to be a little lower in 2012.

Matthew T. Murphy
Chief Financial Officer, DCT Industrial Trust, Inc.

A

Well, I think it's obviously another volatile number because it's all based upon specific deals. But I think year-over-year, time-over-time – South, a little bit under $2 a foot, is a reasonable turnover cost per square foot; it has to do with a lot of different things. The $1.78 that we averaged in 2011 has been a pretty good proxy for what's been going on for the last 18 months to 2 years. As Phil mentioned, you'd like to see once landlords start getting a little bit better positioned in the negotiating table, that number being driven down. But it's obviously, it's one of those – it's a deal-by-deal, bottom-up thing as opposed to, the number will be $1.85 going forward. I think that is not a crazy run rate assumption to make at all.

Q

Okay, great. Nice quarter, thanks.

Operator: Thank you. And the next question comes from Sheila McGrath from KBW.

Sheila K. McGrath
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Yes. Phil, could you give us your view where you're seeing leasing demand pickup the most or the most improved market? And on the other side, which of your markets do you view as the weakest? And any longer-term plans to exit or enter any new markets?

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.

A

Don't let me forget the last one, but in case I do, I want to get to that. The fact is the improvement has been across-the-board. If you look at CoStar statistics, when you look at our own results, it's been across-the-board; the markets that have been strong for a while remain strong. I'd say added to that list now, Northern California has seen a good pickup in demand, but most importantly, and maybe most importantly for us is starting to see really strong absorption in the – I'm not sure what the right way to call it – in the second tier regional distribution markets: Nashville, Memphis, [ph] Indi, (46:57) even Phoenix we count that as a regional distribution market. All of them are showing really active leasing, particularly in the distribution, regional distribution type buildings.

Smaller markets like Louisville and Cincinnati, showing really strong net absorption in the fourth quarter when you look at CoStar. The only market that I'll flag – that I – will be Columbus. And I think Columbus had negative net absorption in the fourth quarter. For a number of reasons it just seems to be lagging. It is – however, when I've talked about leasing activity, where we are right now, what's in the pipeline. We've got a few deals in Columbus that are starting to give us some encouragement that – but Columbus remains to me my single biggest worry. Like I say, to me that's going well. What is your next question?

Sheila K. McGrath
Analyst, Keefe, Bruyette & Woods, Inc.

Q

I asked do you – what are your longer term plans about exiting any additional markets or entering new ones?

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.

A

We will not be entering any new markets. We do have a long-term goal of being in fewer markets, not more, over time. We've not put a timeframe on that nor have we identified which markets we want to exit. But we have a strong strategic preference to be more focused with our people and our capital over time. You've seen that with our deployment efforts for the last 18 months or 24 months where we've clearly voted with our pocketbooks in terms of the markets we like, long-term.

And that's not just because the market – because we got to focus on our people. We can't be everywhere and be everything to everybody. Minneapolis is a good market. The investors who bought that will do fine. Kansas City is a good market. We just can't be everywhere, and we will be much more effective if we concentrate more so than we have people and capital. So I wouldn't be surprised if we exit another market or two over the next 12 months, but I don't want to put a timeframe or a number on that.

Sheila K. McGrath
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay, and last question. Do you have any insight on tenant trends in terms of industries where they're – you're seeing a pickup in demand? Do you see pickup from retailers or any notable trends on that front?

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.
A

Jeff, do you want to comment on that?

Jeffrey F. Phelan
National President of Developmnet & Managing Director, West Region, DCT Industrial Trust, Inc.
A

Yeah, I would say that, Sheila, the 3PL leasing continues to improve. We're seeing good activity even today with talking to those tenants about space and them continuing to bid contracts with their customers going forward. I think if you look at the trends of last year, I think we've seen increases in that market as well. So I think that's promising. So I would say that that would be the biggest trend right now.

Sheila K. McGrath
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Okay. Thank you.

Operator: Thank you. And the next question comes from Paul Adornato from BMO Capital Markets.

Paul E. Adornato
Analyst, BMO Capital Markets (United States)
Q

Hi, good morning. Phil, you've spent a lot of time talking about basis in your comments. I was wondering if we could flip the discussion a little bit. I see that the stock is now trading above the consensus NAV of about $5.30 a share. And so under what conditions would it make sense to consider either a small or a large equity offering?

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.
A

Well, first I'd start with what are our uses of capital and how are they looking in terms of acquisitions and development and redevelopment. And as long as we have attractive sources or uses of capital, we're then going to be thinking about how do we source that capital? And we have two basic sources, recycling assets that we feel long-term are in markets that we don't want to be in longer-term, or assets themselves that we think will be underperforming relative to what we can put our cap – where else we can put our capital.

And then the other source would be equity. And we have certainly accessed the equity markets over the last 18 months, either through overnights or through the ATM, but as Matt said, we're ahead right now on capital raising relative to sales. We are – we like what we're seeing in the asset disposition market. Pricing has come our way in some of the assets, in some of the markets we're trying to sell, and that has important strategic benefits as well. So we're going to keep weighing sources – both sources and uses as well as types of sources. But right now I – over the next few months, I don't think you should expect anything in terms of changing. Our focus is right now on the disposition world and have – like I said, already have several deals in process and – but we'll keep looking at it.

Paul E. Adornato
Analyst, BMO Capital Markets (United States)
Q

Okay. And with respect to the dispositions, could you comment on disposition price with respect to replacement costs? Are the transactions occurring above, at or below replacement?

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.
A

I would say the assets we sold would be below replacement – we're below replacement cost in our opinion, but we're looking more at IRR and stabilize and actual yield, and then overlaying on top of that, people considerations – trying to be in fewer markets and focus our G&A.

Paul E. Adornato
Analyst, BMO Capital Markets (United States)
Q

Okay. Thank you.

Operator: Thank you. And the next question comes from Mitch Germain from JMP Securities.

Mitch B. Germain
Analyst, JMP Securities LLC
Q

Good morning. Matt, I apologize if you already said this, but the leasing, you guys did about 700,000 year-to-date. What's the mix between new and renewal?

Matthew T. Murphy
Chief Financial Officer, DCT Industrial Trust, Inc.
A

Yeah, you're talking about year-to-date in 2012?

Mitch B. Germain
Analyst, JMP Securities LLC
Q

Yeah, yeah, I think it was 500 or so in the first – in January and then about 170 or at 180 in February?

Matthew T. Murphy
Chief Financial Officer, DCT Industrial Trust, Inc.
A

Well, I know we did 1 million square feet in January.

Mitch B. Germain
Analyst, JMP Securities LLC
Q

Oh, 1 million; my apologies.

Matthew T. Murphy
Chief Financial Officer, DCT Industrial Trust, Inc.
A

1 million square feet in January, of which 500,000 – it was 500,000 square feet was new or expansion. Then, in the first, what, week and a half or so of February, I commented we did another 190,000 square feet of new lease. Those are primarily new leases as – I think a 6,000 foot expansion in there, but primarily new leases. And then I didn't comment on a number on renewals, but we've got – had a number of renewals get done; it's still early in the month.

Mitch B. Germain
Analyst, JMP Securities LLC
Q

Great, that's very helpful. And then, Phil, in terms of development in your markets and I know it's – just curious as to how much of what's underway right now is pre-leased or build-to-suit? And I know it's very general, but I'm just curious maybe in the markets that you're developing in right now or expecting to start something, how much of what's underway is pre-committed at this point?

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.

A

Well, at this point the only project I'd say, I consider pre-committed and it's not – a lease won't be signed for at least another week or so, is the two building project in Washington DC, what we call Dulles Summit. We have several projects as Jeff mentioned that are – have not yet broken ground. We continue to have, frankly, quite a bit of active pre-leasing interest on some of that – on a lot of that.

The Houston project, given the type of project it is, and Jeff can go to more detail if you want, is we've got good leasing activity right now, but we started at spec. It's a kind of market and the kind of product that we didn't expect to have pre-leased, but we feel really good about activity so far as we are moving forward with construction.

Mitch B. Germain
Analyst, JMP Securities LLC

Q

Thanks, Phil.

Operator: Thank you. And the last question comes from Craig Mailman from KeyBanc Capital Markets.

Craig Mailman
Analyst, KeyBanc Capital Markets

Q

Hi, thank you. I just wanted to circle back to the comments in the small tenant demand. I know it's probably still early in the recovery, but I was curious; instinctively, do you think that this recovery could be sustainable without an improvement in the housing market?

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.

A

Well, improvement in the housing market would help a lot. And to me that's – that impacts as much as anything these smaller tenants. But what's offsetting that or at least partially offsetting the lack of housing yet is manufacturing. And so the manufacturing business is – manufacturing is up and that generates a fair amount of activity for smaller and local and regional tenants. And that's, I think, that's what's driving in part the recovery in that as well as these guys do a lot of different things including some of the distribution, but they're – as they feel better about the world, as their customers feel better about the world, they're just making more decisions, but clearly the missing piston in our – the engine of our recovery is housing. And I don't think we've seen much of any indication that that has shown any signs of life.

Craig Mailman
Analyst, KeyBanc Capital Markets

Q

That's helpful. And just within the small leasing you guys did in the quarter, was there any geographic pattern or I know you touched on 3PLs as being a driver of demand during the quarter, but was that included in sort of the small tenant guys or is it really just manufacturing as you kind of just touched on?

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.

A

Well, it's not just – by the way, the small guys are not necessarily manufacturing themselves but they're – they may be serving the manufacturing business. I – honestly, it's a strong geographic mix. Cincinnati, for example, we have a lot of small tenant space there. I'm sure that that was a strong reason for some of the leasing we're doing there.

You can still look at Nashville, Louisville, those are markets that have been – that certainly will benefit from the small and regional tenants picking up steam. So I don't think I bring out specific insight into which market in particular, other than it's been a fairly broad-based recovery, coastal and non-coastal, and the small tenants are as much a non-coastal phenomenon as they are a coastal phenomenon.

Craig Mailman
Analyst, KeyBanc Capital Markets
Q

Okay. And then just lastly, the tenant you're negotiating the lease with at the Dulles development, I know you guys had touched on the last earnings call that you thought the leases are going to be done within 30 days of that call. Is this the same tenant and it's just taking longer to close the deal?

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.
A

Same tenant and we have a building that's not yet ready for tenant improvements. You're missing that the accelerant for – or catalyst, but we've been working through a number of issues, working well with them. It's a strong relationship. We're highly confident we're going to get it done, but it's just – these things take longer. I probably shouldn't have said 30 days last quarter, but I do remember saying it. So I can't claim that I was misquoted.

Craig Mailman
Analyst, KeyBanc Capital Markets
Q

Great. Thank you.

Operator: Thank you. And we have a follow-up question from Ki Bin Kim of Macquarie.

Ki Bin Kim
Analyst, Macquarie Capital (USA), Inc.
Q

Thanks. Just quickly on your balance sheet, I know you guys don't have much of that coming in 2012, but what kind of quotes are you getting for unsecured and also mortgages? And I guess the second part to that is, can you pay back – pay down your 2013 notes early without penalty as that would wipe out any kind of benefit?

Matthew T. Murphy
Chief Financial Officer, DCT Industrial Trust, Inc.
A

So multiple parts to the question. As we said – I think you're seeing on a secured basis, which is the only market that we've actually been in recently, you're seeing 200 basis points plus or minus over the treasuries which turns obviously into some pretty good numbers today. Lot of people have floors, depends on the deals. Honestly, haven't touched base with – as you know, in the private placement market, I may have a very good relationship with a lot of the people that are players in that, but the deals – you really know the pricing when you're pursuing a deal. I think that what you've seen in the bond market, in the public bond market, is obviously a great precursor to what would happen in that market.

Because we haven't had the need for it, I'm probably not as current as I could be on that. But you're seeing liquidity in that market and for a company like us that has been in the market, and I think viewed favorably from a credit perspective, I think you'd see some pretty numbers. I do not have anything that I feel comfortable quoting because I haven't been sort of pushing that.

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.
A

You should be hearing mortgage anecdotes of five-year deals in the kind of mid 3s

Matthew T. Murphy
Chief Financial Officer, DCT Industrial Trust, Inc.
A

Short-term money is really cheap right now. Banks are doing – have been more aggressive in doing sort of intermediate terms, if you will. You've seen some of the public deals that have been out there in the bank market. The bank market is very, very active and frothy right now.

Ki Bin Kim
Analyst, Macquarie Capital (USA), Inc.
Q

So if – it's the reason why that – when you get closer to the 2013 notes, you'll probably go the secure route?

Matthew T. Murphy
Chief Financial Officer, DCT Industrial Trust, Inc.
A

No, I wouldn't say that at all. I mean, nothing will make you remember how good being unsecured is like an active disposition program. So I think we do not – that was a piece I didn't answer. We do not have the ability – 90 days we have the ability to pre-pay them. We can't pre-pay them without penalty prior to that, absent of negotiation; the majority of those are with a single lender that we have a very good relationship with. So, no, I would not reach the conclusion. I mean, from a – if you look at pure coupon, you would go on a secured basis. You look at pure coupon, that's what got people a lot of – people in the CMBS game, as an active manager of our portfolio, to me the benefits of the flexibility associated with unsecured debt far outweigh the instant gratification of 15, 20 basis points cheaper on the initial coupon.

Ki Bin Kim
Analyst, Macquarie Capital (USA), Inc.
Q

Okay. Thank you, guys.

Matthew T. Murphy
Chief Financial Officer, DCT Industrial Trust, Inc.
A

Thanks.

Operator: Thank you. And as there are no more questions at present, I'd like to turn the call back over to Mr. Hawkins for any closing remarks.

Philip L. Hawkins
President & Chief Executive Officer, DCT Industrial Trust, Inc.

Thank you everybody for participating. Thanks for your questions, those who did ask, and we look forward to continuing conversations and continuing success in 2012.

Operator: Thank you. This concludes today's teleconference. You may now disconnect your phone lines. Thank you for participating and have a nice day.