DCT Industrial

Fourth Quarter and Full-Year 2014 Earnings

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CORPORATE PARTICIPANTS

Melissa Sachs – *VP, Corporate Communications and Investor Relations*

Phil Hawkins – *Chief Executive Officer*

Matt Murphy – *Chief Financial Officer*

Jeff Phelan – *President*

PRESENTATION

Operator
Good morning, and welcome to the DCT Industrial Fourth Quarter conference call. All participants will be in 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 then one on your telephone keypad. Please note, this event is being recorded.

I would now like to turn the conference over to Melissa Sachs. Please go ahead.

Melissa Sachs
Thank you, Chad. Hello, everyone, and thank you for joining DCT Industrial's Fourth Quarter 2014 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 guidance. Additionally, our President, Jeff Phelan, will be available to answer questions about the markets, development and our 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 limitations, 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 our Investor Relations section of our website at dctindustrial.com.

And now, I'll turn the call over to Phil.

Phil Hawkins
Thanks, Melissa, and good morning, everyone. The fourth quarter was a great finish to an excellent year for DCT. We delivered sector leading operating results and our market teams continue to source attractive acquisitions with favorable value-add and NOI growth characteristics. We also continue to be active in selling assets at prices significantly higher than we would have anticipated at the beginning of 2014. Given the attractive pricing, our asset sales have gotten somewhat ahead of our acquisition and development expenditures, a tradeoff we are more than willing to make despite the near-term earnings dilution.

Given the favorable operating environment, our investment strategy remains the same and I think it's quite straightforward; sell higher occupancy, lower growth assets and redeploy that capital into development and acquisition of higher quality, lesser occupied buildings with better long-term returns, growth and value creation prospects. Industrial market fundamentals continue to strengthen, with healthy net absorption leading to declining vacancy and increasing rental rates. Supply remains in reasonable check, which I believe bodes well for continued operating strength in 2015. Excellent market fundamentals combined with our active portfolio repositioning has paid off in terms of strong occupancy gains, rent spreads and same-store NOI growth in the fourth quarter, a trend which we are forecasting will continue through 2015. Matt will provide more details on our fourth quarter results and 2015 guidance shortly.

As I mentioned at the beginning of my remarks, we have been active sellers, given almost unprecedented liquidity and pricing, especially in secondary markets. We sold $166 million of assets in the fourth quarter, bringing the total for the year to $318 million, including the previously announced Columbus sale. The average occupancy of the fourth quarter disposition portfolio was 95%, or if you exclude the empty building sold to a user, 98%. We are also under contract with all contingencies waived to sell six of our eight buildings in Memphis, with an expected closing in mid-February. These six buildings are 100% leased. One of the two remaining Memphis buildings, the 500,000 square foot Shelby 5, is currently 14% leased to a month-to-month tenant, which we expect will be terminated in favor of two long-term leases in the final stages of negotiation. This will bring the two remaining Memphis buildings to 100% leased and occupied by the end of the second quarter.

Redeploying the sale proceeds is not easy, but our teams continue to be resourceful in leveraging their relationships and proactively sourcing attractive opportunities. The average occupancy of the assets we purchased since October 1 was 78% on the date of closing, 54% when including the known near-term move-outs of two buildings. The lease up on our portfolio of value-add and redevelopment acquisitions has been excellent and ahead of expectations.

Given the favorable operating environment, we will remain active in seeking out well-located value-add opportunities, provided the asset is or can be redeveloped into a highly functional building that responds well to the heart of market demand. We have also been willing to buy high-quality stabilized assets so long as we see favorable growth and return prospects from such contributors as below-market rents, future rent bumps or expansion on adjacent land.

One example of a stabilized investment generating above-average growth is our 222,000 square foot Houston acquisition in June of 2014. The building came with adjacent land to accommodate a 54,000 square foot expansion. While we did not allocate any value to the land nor count on the expansion in our base case underwriting, our Houston team was aware that the tenant might be considering an expansion. And sure enough, a little over six months after acquiring the building we signed a new lease at very attractive rents for the expansion of the building and an extension of their overall term.

Moving on to our development pipeline, we signed five leases totaling 271,000 square feet during the quarter, increasing the lease percentage of the pipeline from 10% last quarter to 16% this quarter. We have good leasing activity on our remaining development portfolio, much of which is still under construction or was just completed. So we are confident that our returns will be consistent with, if not exceed, our initial expectations.

Our projected developed yields are at least 150 basis points higher than market cap rates, a risk premium that we continue to find very attractive, given the strong operating environment and low vacancy rates in both our portfolio and our markets. Actual value creation will obviously depend on successful execution and our market teams are laser-focused on getting this critical job done on or ahead of schedule.

With that, let me turn it over to Matt who will provide more color on the quarter as well as our guidance for 2015.

Matt Murphy
Thanks, Phil. Good morning everyone; 2014 was an outstanding year for DCT and we finished strong. We ended the year at 95.4% occupancy in our consolidated operating portfolio, our highest point ever and a little ahead of our expectations. While some of the upside is a result of seasonal occupancy, this number is a testament to continued excellent tenant demand and, I believe, the improvement in our portfolio. Leasing continues to be strong with 5.3 million square feet of leases signed in the quarter, including 1.6 million square feet of new leases and 545,000 square feet in our developments and

redevelopments.

Releasing spreads increased 3.3% on a cash basis and 10.4% on a GAAP basis, reflecting declining vacancy in our markets and strong tenant demand. These increases occurred despite the 221,000 square foot new lease we signed in Southern California during the fourth quarter that we talked about on our third quarter call, which replaced a long-term lease signed right at the prior peak of the market with 2.5% annual bumps. That single lease reduced the cash spreads by 2.3% and GAAP by 1.9%. And I think this exemplifies not only how impactful the mix of leases can be on this calculation, but also how strong releasing spreads are in general in order to overcome such a large outlier.

Same store NOI for the quarter increased 6.2% on a GAAP basis and 7.8% on a cash basis, driven by 190 basis point average occupancy increase year-over-year, positive releasing spreads and about $1 million of contractual rent bumps. Sequential same store results were also excellent for the fourth quarter, increasing 2.4% over the third quarter on a GAAP basis and 2.7% on a cash basis.

It was an active quarter in terms of capital funding as well. Since the end of the third quarter we've sold approximately $166 million of assets and issued approximately $135 million of equity.

As Phil mentioned, our sources have gotten a little ahead of our uses, even given our robust deployment activity, leaving us in excellent position to fund our development pipeline into 2015 and most importantly with our balance sheet and credit metrics now essentially at our targeted levels. Going forward, we expect to fund deployment on a more leverage-neutral basis, as opposed to the deleveraging we've achieved over the past several years.

Turning to guidance, we're initiating our 2015 FFO guidance with a range of $1.86 to $1.98 per fully diluted share. The key assumptions underlying this guidance are as follows. Same store NOI is expected to increase between 3.5% and 5% on a GAAP basis and between 5% and 6.5% on a cash basis. The expected increase in cash same store NOI is being fueled by an increase in average occupancy, positive releasing spreads and strong embedded rent bumps.

Our 2015 same store portfolio represents 55.8 million square feet, or roughly 90% of our consolidated operating portfolio. This pool includes all assets which were acquired prior to January 1, 2014 and does not include any developments or redevelopments unless they were stabilized prior to that date. Average occupancy in this pool was 93.7% in 2014 and we expect it to increase to between 94.5% and 95.5% in 2015. Of the expiring square footage in this portfolio, over 95% of the leases were signed post-recession, which will provide the basis for favorable re-leasing spreads.

Finally, contractual rent bumps in the existing leases in the same-store pool will provide an increase of approximately $3.4 million. It's important to note that these same-store projections do not reflect the potential impact of any dispositions beyond what we have disclosed in our press release. Given our intent to sell predominantly stabilized assets, many of which have been recently leased up, it's likely that dispositions will have a modestly dilutive impact on our same-store numbers as they did in 2014.

We expect average occupancy in our consolidated operating portfolio to increase to between 94% and 95% in 2015, an increase of 100 to 200 basis points from the 2014 average of 93.5%. We expect occupancy will decline in the first quarter as short-term and seasonal tenants vacate and three of our five largest known 2015 move-outs occur. Our occupancy should climb through the back half of the year and end between 95% and 96%. Again, these estimates do not take into account the potential impact of any future acquisitions or dispositions. 2015 guidance includes approximately $1 million of other income items, primarily associated with the sales of built-to-suits at 8th & Vineyard in Southern California. Guidance does not include any lease termination fees or causality gains.

Turning to capital deployment, we are expecting 2015 to be another active year. Beginning with development, we are projecting construction starts of between $100 million and $200 million in 2015. All of the projects within that range are on land we currently own or have under control. Several of these starts are dependent upon leasing of existing buildings under development, but given the encouraging leasing activity on those buildings and strong market conditions, we are confident that we will get these projects underway in 2015. None of the projects projected to start in 2015 will provide NOI in 2015 consistent with our practice of underwriting 12 months of downtime.

With respect to acquisitions, we are projecting between $200 million and $300 million of acquisitions in 2015. They will be a combination of stabilized acquisitions and value-add opportunities consistent with the strategy Phil described a moment ago and that we have been executing on for the last several years. We are targeting stabilized acquisitions of quality assets in desirable infill locations with favorable cash flow prospects.

Value-add acquisitions have represented an increasing portion of our acquisition activity, a trend we expect to continue in 2015. While the year one returns of these transactions are typically dilutive to earnings, for example, the year one yield was over 400 basis points lower than the expected stabilized yield on value-add transactions executed in 2014, we believe that the value creation potential and positive impact that these transactions have on our overall portfolio quality make the short-term dilution well worth it over the long-term.

On to dispositions, we are projecting between $250 million and $350 million of dispositions in 2015, which are likely to be at least somewhat front-end loaded given the sale in Memphis. As Phil described earlier, pricing and liquidity for asset sales is incredibly attractive, particularly in secondary markets and for older or less than state-of-the-art buildings. This fairly recent improvement has caused us to accelerate the pace of disposition in recent months and we expect this to continue. Given current pricing on these, we believe that asset sales are our most attractive source of capital today and are likely to fund the majority of our capital deployment.

We estimate that the dispositions we executed in the fourth quarter of 2014 and are projecting in 2015 will dilute 2015 FFO between $0.06 and $0.08 per share. However, we are confident that the dispositions will be accretive from an NAV perspective, given the disparity between public valuation and the private pricing for these assets and we are certain that these transactions will be accretive from a cash flow growth and portfolio quality perspectives.

Finally, our 2015 guidance includes the assumption that we will return to the public bond market in the second half of 2015. We expect the proceeds will be used to fund debt maturities in 2015 as well as pay down existing bank debt and balances on our revolver.

In summary, we expect 2015 to be another very active year at DCT and hopefully one that is as successful as was 2014. With that, I'll turn it back over to Chad for questions. Thank you.

QUESTIONS AND ANSWERS

Operator
Thank you. We will now begin the question and answer session. To ask a question, you may press star then one on your telephone keypad. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. Please limit yourself to one question and one follow up. If you have further questions, you may reenter the question queue. At this time, we will pause momentarily to assemble our roster.

Our first question comes today from Brendan Maiorana with Wells Fargo Securities.

Brendan Maiorana
Thanks. Good morning. Matt, so just a question on the outlook. I think you mentioned that you guys will be, from a sources and uses perspective or leverage perspective, leverage-neutral going forward, but you front-ended it in Q4 given the dispositions that happened and the equity raise. If I look at remaining spending on the development pipeline, development starts and dispose that you're expecting to do in 2015, do you think that, is the leverage ticking up as we get to the end of the year from where it is 2014, or is this a leverage-neutral plan for 2015? How should we sort of think about how the balance sheet progresses during the year?

Matt Murphy
Yes. I think, Brendan, it will be at a leverage-neutral basis, meaning that basically we ended 2014 right where our targeted leverage metrics are and so what we'll be able to do is fund deployment with incremental debt, but on a leverage-neutral basis. So, I don't think you'll see leverage tick up from where we are, at least not material, it will fluctuate a little bit quarter-to-quarter, but you will not see leverage tick up from where we are, but we will be adding incremental debt on a leverage-neutral basis.

Brendan Maiorana
Okay. And as you mentioned, it's leverage-neutral throughout the year, but from a bottom line earnings perspective, it's dilutive, given that you are front-end loading the dispositions both in Q4 and it sounds like in Q1. And you're deploying that more into value-add and development, which obviously isn't accretive near-term.

Matt Murphy
Right, it's right on the money.

Brendan Maiorana
Okay. And then just second question, last question, so the occupancy outlook, year-over-year, it's positive, but overall relative to where you were in Q4, it sounds like you're going to end 2015 at about the same level. I think you mentioned you had five known move-outs, three of which happened in the first quarter. How should we think about the progression and how are you looking at the overall occupancy outlook, given that the fundamental backdrop feels very positive and can you push above 95% or is it just some structural vacancy when you get to those high occupancy levels?

Matt Murphy
Yes. Well, I think you characterized it fairly well. I think those aren't the only known move-outs, those are the largest. Of the five largest, three of them happened in the first quarter. So, you will see us drop probably a little bit more than we did in the first quarter last year, but at sort of a seasonally normal level. Really when it comes down, and then it builds back up to above 95% by the end of the year, it really gets down to it's as much a budgeting technique as it is a reflection of the market or the portfolio. It's just hard to predict that you're going to get above 95% and stay there. Now, I think that's part of why guidance comes in ranges. So, yes, I think that's it. While I think it's certainly possible and likely that we will exceed 95 at points during the years, it's just hard to budget that way.

Brendan Maiorana
Yeah. Okay, understood. Alright, I'll get back in the queue. Thanks, guys.

Matt Murphy
Thanks.

Operator
Our next question comes from Eric Frankel with Green Street Advisors.

Eric Frankel
Thank you very much. Was hoping you can comment on your development volume for next year. We found it a little bit interesting that your development volume is going to be a little bit lighter than acquisition volume, and just given the competitive environment out there you would figure it would be the inverse?

Phil Hawkins
Well, actually we have the potential to do more in terms of starts and we continue to follow the discipline that we've laid out now for several years, which is only one project at a time of its kind in the market and don't start another one until you lease it. We will introduce a few new markets in development in 2015 potentially. We have land under control, I've got to mention this, in Northern California. We have got land in a few other markets that we're working on. That will add to it, but to me $150 million is not a bad run-rate in a good environment like we're in. In a good year, we can get to $200 million, maybe a little bit more. If we have good leasing, maybe even up a built-to-suit or two, but it's pretty hard to get much above that if you're going to develop in six to eight markets at a time and one or two buildings in a market at a time.

Eric Frankel
Okay, thanks for the explanation. I was also hoping, related to development, you can comment on supply environment, the staff certainly say that supply is increasing at a pretty rapid pace, perhaps obviously understandably, just given that demand has improved so much, but is there any concern of overbuilding in any markets?

Phil Hawkins
Well, you said it right. It's increasing, but it's increasing in a rational way. It should be increasing. I would say every market that we are looking at developing in and have a pretty good presence in are in balance or under balanced relative to supply. The one market that's the most in balance and therefore the easiest probably to teeter over would be Dallas. I think about it, if you look at under construction, the un-leased under construction, non-pre-leased if you will, how does that compare to absorption? And Dallas is right about one year and it's got pretty low vacancy rates. So one-year supply, one-year lease up if you will doesn't bother me at all, but it certainly shows the potential to do more, hopefully not. Other than that, I still continue to feel like supply is going to ramp up in markets, where it's now low and that's where the national number will go up.

And then last comment I'd make on supply is the real question is not supply, although it's an important one, it's demand. And I think where this industry gets in trouble is if we build to a level of demand that then fails to materialize or repeat itself, that causes as much of the problem as people overbuilding to begin with. There is nothing I see right now that would indicate demand is temporary or shows signs of weakening. I don't have a crystal ball that's any better than any of you on the call, but I continue to be pretty positive about the demand characteristics in each of our markets that. So, I feel okay, but back to the question, yes, we should be worried and we should be paying attention to it and which I know all of you are.

Eric Frankel
Thank you very much. I'll jump back in the queue.

Operator

The next question is from Jamie Feldman with Bank of America Merrill Lynch.

Jamie Feldman
Great, thanks. Good morning, guys. So, I guess sticking with the demand question or your demand comments, focusing on a couple of key markets, can you talk about what you're seeing in Houston, any pullback, given the price of oil? Also Inland Empire, anything you guys are seeing, given the risk of these port strikes? And bigger picture, we've seen oil drop. We've seen the dollar strengthen and we've got these port strikes on the West Coast. Are you seeing any shift in logistics supply chain plans and how people are planning their warehouse needs?

Phil Hawkins
Well, let me answer the first one first, because I think it's way too early to have that to have any impact. So, no additional color to add on that other than overall, I think the drop in oil is favorable and hopefully will more than offset the strengthening of the dollar and the strengthening of the dollar though in some ways will increase imports, which is a net positive for our business. Houston, the answer is not yet and I think I mean not yet, unless oil bounces back. Demand in our portfolio, demand in the market, it's remarkably I think, but not to make an editorial comment, but it's remarkably favorable and really shown no sign of pullback. We've got excellent activity on our development and value-add projects down there, fairly advanced in some cases; I hope they get over the goal line, that's something we'd love, I want to put every one of our value-add and development buildings to bed. I'm certainly just as anxious in Houston as any other market but no signs that we are seeing in terms of tenant activity, tenant behavior that shows reaction yet. And the last comment I'd make is, I think if will be a favorable reminder to Houston developers to not be too bullish and you may see a pullback in construction, so that will be welcomed.

Jeff Phelan
And then Jamie, this is Jeff. In reference to the Inland Empire, as you know at DCT, we're very diligent about tracking the potential tenants that are in the market looking for space. Today there is approximately 38 tenants that are 500,000 square feet or larger for approximately about 30 million square feet of space that are looking in the market today that we track. Of those 38 tenants, 11 of those tenants have signed a letter of intent or better to lease space in the Inland Empire for approximately 8 million square feet. So when I look at where we're at today versus where we were in first quarter of 2014, it feels better to me. And I think in general I feel positive about the future net absorption in that market and where we are today with our current development pipeline in that market as well.

Jamie Feldman
So, how are tenants thinking about the port strikes, is it just something that they've already prepared for and it's a non-issue for the warehouse market, or…?

Jeff Phelan
We've been through this before, Jamie, and these same users and tenants have been through this before and where we start getting concerned is when they start bringing these issues up to us verbally about it. I haven't seen that indication yet, nor have I had those tenants bring it up as an issue. We've been through these issues with the unions in the past in the ports. I feel confident that with the Federal mediator that soon there'll be resolution to the problems and the issues there.

In addition, I feel confident that the ports are paying attention to it, not only from a state and federal and local government level, but I think also they're focused on continuing to improve the dynamics in the infrastructure in the ports. For example, in Long Beach you've got the Middle Harbor project which is going to increase the TEU capacity by 20%. You've got, in addition to that, the construction of the

Desmond Bridge, which will increase the traffic by 30% in and out of the port for the trucks. So I think all of these things are being done to help with the future TEU increases. And I believe that better minds will prevail in getting through today's current situation with the union.

Jamie Feldman
Alright, great. Thanks for the color.

Operator
Our next question is from Emmanuel Korchman with Citi.

Emmanuel Korchman
Hey, guys. I'm here with Michael as well. Matt, if we're looking at both acquisitions and dispositions for next year, can you give us an idea of how you're thinking about yields and maybe on acquisitions, both first year yields and stabilized yields?

Matt Murphy
Well, I think what we've done historically will give you a pretty good indication of where we think stabilized yields will be. Year one yields are difficult to predict because each deal is so dependent. As I talked about on the value-add front, there was a 400 basis point difference for what we did in 2014. I don't think that's atypical and I think I know personally, when budgeting with that as a departure point, it's really difficult to predict that because are we going to buy something that's 25% leased or 75% leased or is a known move-out two months later or nine months later? But I think, generally speaking, what we've done, because the strategy particularly in the back half of the year isn't that different from what we're anticipating in 2015. So I think history is as good a predictor as I have, those value-add ones are varied case-by-case.

Emmanuel Korchman
Great. And then if we look back at the acquisitions you've done in maybe '12 and '13 and look at where you expect the stabilized yields to go and what you've been able to realize, is there a spread there or have you hit your targets based on where you thought stabilized yields were going?

Matt Murphy
Well, I think occupancy, when you get a big enough sample, you're going to be pretty close to where occupancy goes. We've been positively surprised by rents for each of the last several years. So as acquisitions have rolled in the last several years, certainly it's not without exception, but the predominant answer has been we've done better at rents than we thought.

Emmanuel Korchman
So net-net how much do you think you've exceeded your yield expectation?

Matt Murphy
I have never done the math that way.

Phil Hawkins
We didn't do a math, but we've got a chart that we actually talked about as a team and also with our Board. And I'd say on an average 10 to 15 basis points higher than our pro forma yield, some cases more than that. In some cases a little less, but nothing materially less, and a number of them I would say 10 to 25 basis points higher.

Emmanuel Korchman
Great. Thank you.

Operator
Our next question is from John Guinee with Stifel.

John Guinee
Great. Thank you. Boy, you gave me a lot of time to think about this. If you look at Page 13 on your predevelopment land, first it excludes 55 acres for $9 million. Why does it exclude that?

Matt Murphy
The way I think about that is that is a way to communicate those assets that we intend to develop on in the fairly near future. So, land held that we're talking, that as excluded, I think is unlikely to materialize. That's the thought process behind it.

John Guinee
Got you, okay. Then if I'm looking at this right, your land basis on Southern California is about $700,000 an acre, land basis in Seattle about $453,000 an acre, land basis in Miami about $156,000 an acre, which seems remarkably low, while Seattle and Southern California seemed a little high. And then if I just do overall quick back of the envelope, it looks like you're in, using a one-third coverage, you're in the land at about $30 per FAR, so my question is, what do you think your yield on cost can be for this predevelopment portfolio, given that it looks like to me it's good for about 1.7 million square feet and maybe $125 million to $150 million in total cost? Is this going to able to be north of 7 on a GAAP basis or is it going to come in a little bit?

Phil Hawkins
Probably right around 7. I'm looking at the mix of markets here, John. Houston will be above that, way above that, that's the expansion land I just talked about in my little case study. Miami will be probably in the mid-6s, and then Seattle and Southern California probably right around 7, maybe a touch below that. I think your numbers, we would probably handle that offline with Matt and Jeff. I think your numbers are and your math is enough shortcut, so you have to take the information we give you that, I think your number isn't coming down to a billable foot or are off, pretty materially off.

Matt Murphy
I think there is more square footage there than you're giving. I think 30% coverage is where the disconnect is.

Phil Hawkins
And I think our Southern California and Seattle land basis, is probably more under market than it would be in Miami, where we have a more recent land acquisitions. Both have very competitive basis, but Seattle and Southern California the land basis is on a per foot basis, is a pretty attractive, which is what leads to pretty outside yields relative to what other developers are now are looking to do.

Jeff Phelan
And John, this is Jeff. If you want to call me afterwards and go through each one of those buildings, I'd be happy to provide with you that information.

John Guinee
Perfect. Do you think 40% coverage is more likely, or what's your through process there?

Jeff Phelan
It depends on the project.

Phil Hawkins
It depends on the project. In Southern California, you're 50% or better. When you look at Miami, you're probably around that 40% coverage.

John Guinee
Got you, okay. Thank you.

Operator
The next question is from Gabriel Hilmoe with Evercore ISI.

Gabriel Hilmoe
Thanks. Matt, can you add a little bit more color on the components of the same-store NOI guidance, just in terms of cash spreads for this year and maybe where you think that number average is? I realize that can be choppy quarter-to-quarter. And then just expectations for your rent burn off?

Matt Murphy
Well, so I have given most of the parts of it. I think free rent burn off you've got probably $2.5 million to $3 million that you know of, and part of it depends on what's your assumption on the free rent associated with new move-ins. I think from a rental rate perspective, as I said, the comps are better in '15 than they were '14. You saw a mid-single-digit cash pretty well into the double-digits on a GAAP basis. I think that's a good starting point. You're still never going to get me to predict a spot number, because of the volatility of them, but I think trend lines should be getting better from where we are today, because the comps are better than where we are today.

Gabriel Hilmoe
Okay. And then with same-store going forward and just what you are doing with acquisitions on the value-add side, do you think it's a fair characterization that the same-store levels could remain at an elevated level for longer, given the lease up of some of the higher vacancy assets and how those ultimately feed into the same-store pool over time?

Phil Hawkins
Sure. Without that, if the question is, will the way we approach our deployment enhance our same-store numbers and therefore make them higher than average? The answer is absolutely yes.

Gabriel Hilmoe
Alright, thank you.

Operator
Our next question comes from Craig Mailman with KeyBanc Capital Markets.

Craig Mailman
Hey, guys. Phil, appreciate the color on the activities and development pipeline, but I was hoping maybe you could run through some of the larger projects you guys have that are vacant, like in Seattle and Atlanta and Inland Empire. I know that was given a little bit, but give some additional color on where you guys are in the leasing progress there. Then separately, we've been a little bit spoiled with all these projects being leased before completion. And you've obviously seen rents move higher, so just curious kind of where rents are today versus underwriting, in general? And what could happen to your yield expectations, even if leasing were to slip a quarter or so?

Phil Hawkins
Let me answer that one and I want to let Jeff answer the details, since he's as close to it as anybody.

To me, I think we still are seeing rents that are outperforming our pro forma and lease up that, while taking longer than it did three years ago when we are an early mover and no one else was developing or there was precious little, we are leasing things up quickly, in fact pre-leasing a lot. We are still going to be leasing up within our pro forma on average. I think on average most of our buildings will be quicker than 12 months; 1 or 2 or 3 maybe a little longer than 12 months, but that delay, given where interest rates are, is minor compared to where rental rates have gone. And that's why I think yields will beat our underwriting, both because on average it will be a little quicker than our pro forma lease up, no promises, but so that's our hope and that rates will be slightly above that.

Jeff, you want to— he's focused on the right three projects, which is the biggest ones and go ahead.

Jeff Phelan
Yes. So, let's start with Atlanta first. So, Atlanta is still currently under construction. We've got approximately another 60 days till we finish that building. We have multiple proposal activity out there with tenants that are actively looking in that market. So, from my standpoint of view, I feel very good about the activity that we're seeing in Atlanta and the recovery and the absorption numbers that you're seeing in that market as well, I think have improved. So, again, I feel confident with what's going on in that market, plus we have a cross dock building there that we have the ability to multi-tenant as well, to be flexible with the same demand that is looking in that market.

Moving on to Seattle, again, we have a 650,000 square foot building. It's a cross dock building. It's in Sumner. It's in a market that historically has had good absorption. We have seen an uptick in the larger tenants in that market. In addition to that, we have a 650,000 square foot cross dock building that can be multi-tenanted. So, we can put five to four tenants in that particular building. So, I like our position there in that market and, again, the building has only been complete for approximately 90 days at this particular point.

Now, when you look at Southern California, we just finished the Rialto building. It's been complete approximately for 60 days. Again, we feel with the strong activity that we have in that marketplace, with the backlog of the 33 tenants that I brought up, we still feel good that our odds are that we're going to be able to lease that building in Southern California.

Craig Mailman
Okay, that's helpful. And then maybe turning to Matt, just a follow-up to Brendan's earlier question about leverage, if I look at sources and uses here it looks like about 75% of your investment activity is going to be funded with dispositions. So you're clearly ahead there. And just relative to your comments about being leverage-neutral, as we think longer term about earnings growth, this de-leveraging process has been dilutive along with just the portfolio of repositioning. And as we go out to '16 and beyond, what kind of leverage do you have from an earnings growth perspective if you were to lever up a bit to more normalized levels?

Matt Murphy
Well again, I think what you'll see is that you will be able to, going forward, have leveraged same-store growth, if you will, as opposed to having the de-leveraging working against it. The only thing that you said, we're not intending to lever up from here, we are intending to stay where we are from here, which will allow it to be the leverage aspect of it. It's been fighting against earnings growth through 2015. I think you now get to the point where you're thinking about it, where you will have the leveraged, the top line will be not thwarted by leverage. It's leveraged same-store growth. Again, I just want to make a point that we're not going to lever up from where we are today.

Craig Mailman

Right. I was just getting to the point that, if EBITDA and if pro forma yields come in better and EBITDA growth is better than you expect, do you have more capacity to lever and what that would do to growth, is what I was getting at?

Matt Murphy
Yes. And you're right, so the concept of leveraged, so if the whole world was just same-store growth, the fact that you're leveraged means your same-store growth would grow more. Your earnings per share would grow more than same-store. We'll get back into that sort of more traditional relationship.

Craig Mailman
Great. Thank you.

Operator
The next question is from Ross Nussbaum with UBS.

Ross Nussbaum
Hey, guys. Good morning. Two questions. First, from a leasing perspective, where do you think the sweet spot is today? Would you categorize it as demand being stronger for what I would call the under-100,000 foot crowd, or is it in the more bulk 100k plus? How would you categorize which size category is stronger right now?

Matt Murphy
Yes. Ross, I think I feel like they're pretty well-balanced today and I could not have made that statement 18 months ago for sure. The last piece of the puzzle, if you will, has clearly been smaller tenant demand. We've had a 400 basis point increase in 50,000 and under during the year. Having said that, that still is slightly, the endpoint of that, if you will, those are still slightly more vacant. We have one space over 200,000 square feet vacant today. It's the 500,000 that Phil was talking about.

Phil Hawkins
It better not be vacant for much longer.

Matt Murphy
Right. We covered that. So, it really does feel balanced. Clearly, the big boys were the first ones back in the pool, but it feels like everybody is in the pool today and so I can't really point to a single segment that from a demand perspective is significantly outpacing the rest. I think they've all caught up to one another and it feels pretty broad-based.

Phil Hawkins
Ross, let me to add to that question, if I may. And that is, the sweet spot, while the demand is now fairly balanced and healthy across all sizes, I think the sweet spot is probably in the smaller size; small or medium sizes, because there's not as much supply, at least not yet. Vacancy levels might be a touch lower in our portfolio and others a touch higher. Occupancy is a touch lower, but there is no new supply or not much new supply. And so there is an early period here, where there may be, I think, a sweet spot. You'll see, and you've seen I think, most of our starts, development starts, have been in that 50,000 foot to 100,000 foot range. We've leased, we had good leasing activity on those. We have also started few big ones which overwhelm the numbers, but we see opportunity not just in terms of leasing our own portfolio, but development that responds to that trend.

Ross Nussbaum
Okay, that's helpful. I appreciate it. If I could just sneak in a second one on your portfolio repositioning, your very pretty colorful chart in the supplemental does a nice job of showing how the portfolio has

moved towards your focused markets over the last five years. I'm just wondering if you guys have given, I know the dispositions remain a focus for you in the legacy markets, but why not say, you know what, the pricing on that kind of stuff probably in this interest rate environment doesn't get much better. Why not bite the bullet and say, hey, let's take that down from being what is it now, 15%-ish of the portfolio, and let's just chop that off, get through it this year and bite the bullet rather that being a continued sort of multi-year drag?

Phil Hawkins
Well, actually, our goal is not to get that to zero. We're in a number of markets that we may not be deploying capital in actively that we'd like long-term and/or the buildings that we have, have so much growth in them from below market rents or leases that are rolling over that we have an opportunity to get to, that the goal is not to be perfect from at least a definitional perspective of focused markets. Our goal was to get to 10% to 15%; we're there. Our goal is to sell assets that we just don't like long-term from a growth or quality perspective. We don't have much of that left and what we do have left we need at least to maximize value. We're not here to sell strategically. We're here to sell based on the economics.

Memphis, we got to a leasing perspective that we thought was right. The market got there, hit the bid, go. Same with Columbus, it took us a while to get it leased. The market recovered really quickly, remember right back last summer, I mean, boy, net absorption came out of nowhere, investor demand came out of nowhere, and those two trends, the confluence of that resulted in an easy decision for us to sell. We don't have a lot left that what I would describe, it would really be assets probably more than markets that I would love to sell from a functional or physical perspective. There are plenty of assets we'd sell if you get the right price. In fact, all of our assets are for sale at the right price, but anyway I don't think you're going to see after '15 a flood of new sales that happened just because of "strategic or market repositioning."

Ross Nussbaum
That's helpful. I appreciate it. Thanks a lot.

Phil Hawkins
Well, I will add one more thing, what you will see if the market remains the way it is, and it probably won't—the world keeps changing, I think in this environment, it does make sense to sell fully leased buildings that investors appreciate and value very attractively and redeploy that capital into development and under-leased value-add type buildings, even renovation opportunities, that will have a dilutive impact, but as you do about the same volumes each year, the impact of that will be not as significant as it might have been going from '14 into '15.

Ross Nussbaum
Understood. Thanks. Appreciate it, Phil.

Operator
Our next question comes from Anthony Hall with SunTrust.

Ki Bin Kim
Hey, this is Ki Bin actually. Just a couple of quick follow-ups. Given your commentary about the amount of demand there is in the Inland Empire, just curious if there is any update on the SCLA options that you guys are in charge of or ownership of?

Jeff Phelan
Yes. So, Ki Bin, you and I have talked about this in the past and for us, SCLA is a great opportunity to

provide either land sales or built-to-suits for users that come into the marketplace. Right now, we do not have any prospects that we're looking at to do a built-to-suit. We do have tenants that are looking to acquire land and build assets out at Victorville. But right now, our strategy has pretty much been consistent over the past five years and that is that we've done a good job leasing up our existing portfolio there. In addition to that, we are continuing to look for built-to-suit opportunities and/or land sales.

Ki Bin Kim
So maybe I can ask it a different way, if you had to gauge the interest level or the closeness to making those landslides profitable and getting something started, are we much closer today than we were last year, or is it pretty similar?

Jeff Phelan
I think it's similar. I think we've seen pretty consistent activity in that marketplace over the past five years.

Ki Bin Kim
Okay, got it. And then just a second quick one, as you're finishing up Rialto and White River Corporate Center, it's been two of your bigger projects, how are you guys accounting for capitalized interest and how that changes in 2015?

Matt Murphy
Ki, short answer is we're doing it according to GAAP, which is the building, when completed, will start a 12-month period. You'll continue to cap it, basically the building ready for its intended use. The answer to that is no until final build-out of the TIs with a, what we call a pumpkin date of 12 months after shell completion. It's what GAAP requires, it's not a choice.

Ki Bin Kim
Okay, thank you.

Operator
The next question comes from Michael Mueller from JP Morgan.

Michael Mueller
Hey, thanks. Just a quick one, what's your best guesstimate at this point, if you talk about the mix of stabilized versus value-add acquisitions? And relating to the value-add acquisitions, how long do you underwrite to achieve stabilization?

Matt Murphy
So, Mike, it's a bit of a guesswork, I generally assume we're progressing to the point where it's roughly 50-50 value add, stabilized value add that's in terms of projects, dollars tend to be a little less on the value add side because they're less expensive. And the lease up time is typically going to be from the point where it's ready, so depending whether it's existing vacancy or redevelopment vacancy, 9 months to 12 months. Twelve months is a point of departure. You may have very specific reasons that you're going to go under that, but we don't underwrite less than that typically.

Michael Mueller
Got it. Okay, that was it. Thank you.

Phil Hawkins
Thanks, Mike.

Matt Murphy
Thanks, Mike.

Operator
Your next question is from Paul Adornato with BMO Capital Markets.

Paul Adornato
Thanks. Phil, just want to make sure I got this quote correct; our goal is not to be perfect, is that right?

Matt Murphy
Let's say our goal is to be perfect, our expectation is not.

Phil Hawkins
When I speak for an hour, I'm going to get in trouble many times.

Paul Adornato
Related to that Memphis portfolio sale, you said the last two properties are potentially in lease-up, do you expect to dispose of those as well, or maybe the same buyer is interested?

Phil Hawkins
They'll be in the queue, the same buyer, I hope, is interested. What part of the exercise we did, we actually check pricing on the value of those buildings in the current un-leased state and our belief was that it was economic to hold them and lease them and then sell them. So they're in the queue. There are probably other projects that are ahead of them, so they are probably at the earliest later this year, unless again we get some offer that makes too much sense. But probably in the queue for late this year or early next year if all goes according to plan.

Paul Adornato
Okay. Thanks. And just as a quick follow-up, are you able to put a pin in the pricing as you mentioned both for the assets that you sold and for the empty and leased two remaining?

Phil Hawkins
Yes, I will. I'm happy to. The portfolio we sold was a low-seven cap rate. What we found was its starting to bump into replacement costs in the secondary markets that cost basis is probably still a relevant factor, less so in primary markets.

Paul Adornato
Okay.

Phil Hawkins
And I'm not facile with the pricing on the two buildings. It not got very advanced, so I'm not sure I can give you a good number there. The other data point I will give, and it's not your question but I'll answer it anyway, and that is the Houston sale and people have talked about Houston. We had an unsolicited offer for a portfolio of I'd call them B buildings, but probably that would be somewhat generous. In the Southwest Houston, a sub-market that we're not all that committed to and we decided that now is the right time to sell those types of assets and that was a 5.3 cap rate.

So we're very happy with that execution. Started after the price of oil fell below $80, but closed in December, so clearly not before oil hit below $50, but still shows you that there is still some demand in Houston, although I think a lot of people now are in the wait and see mode, particularly core investors.

But that sale to me, while we talked about Memphis, that sale to me is probably just as important a data point as the sale of Memphis or before that, Columbus.

Paul Adornato
Great. Thank you.

Operator
The next question is from Tom Lesnick with Capital One Securities.

Tom Lesnick
Hi. Thanks for taking my questions. Most of them have already been answered, but just going back to the bond offering you mentioned, likely in the second half this year. Obviously interest rates can shift quite a bit, but today where do you think you would price, and given how far interest rates have fallen over the last few months, have you guys considered doing any sort of forward agreement to lock in a rate?

Matt Murphy
So I would say probably a good over/under today, if you were doing it today, 10-year index eligible kind of all the normal stuff, you're looking at 4% yield. Given the number of pieces we have in motion with regard to sources and uses of capital, to me forward hedging of interest rates, if you have a specific transaction that you know when it's going to happen, taking interest rate risk off the table makes a lot of sense. But the one thing that getting into hedging transactions if you don't know the timing and size, it gets a lot more speculative than I think is within the DNA of DCT.

Tom Lesnick
Alright, thank you.

Operator
Next question is from Mitch Germain with JMP Securities.

Mitch Germain
Hey, guys. How are you? Phil, just to quote you, you talked about unprecedented liquidity in the secondary markets. I'm curious about the buyer pool, is it levered buyer sleeping money? I just love to get some perspective from you.

Phil Hawkins
I'd say the full spectrum. You've got open-ended pension fund advisor-type money. You have certainly the private real estate equity funds, industrial focus, as well as general focus. REITs are involved some times, REITs, non-traded REITs. So I'm not sure there is any particular buyer pool that isn't there, other than not sure that the sovereign wealth funds have moved in, but it's a fairly full spectrum of buyers.

Mitch Germain
That's it from me. Great year and great quarter. Thanks.

Phil Hawkins
Thank you.

Operator
Next question is a follow-up from Eric Frankel with Green Street Advisors.

Eric Frankel
Thank you. Speaking of the capital question, obviously you guys have a pretty relevant operating platform. Why not leverage that into a larger joint venture platform with some really big capitalists looking to get into US industrial real estate?

Phil Hawkins
Not our expertise. I think we got to figure out what we're good at and try to be better at that and that is community owning assets and operating assets on our own behalf. The capital management business, while it may be easy to get into it at certain periods of time, is a skill set that need to be developed and those that are in it have been doing it for a long time and are very good at it. I think we need a very simple strategy that's consistent over time, own real estate and operate that real estate as best as we possibly can and manage that portfolio as best we possibly can. We're fortunate to have one relationship primarily left with JP Morgan, and we're fortunate to have that relationship. I don't see that growing, but also don't look for it to shrink. If there are specific tactical opportunities that made sense to do a joint venture for risk management, risk mitigation reasons, for access reasons if we could access the portfolio because of that, I think flexibility is an important attribute, but a strategic priority or a strategic focus, not in the cards of DCT as far as I can forecast.

Eric Frankel
Okay. Final question just for Jeff, maybe you can talk about the land market a little bit, it seems that it must feel more competitive to find good sites and good locations at good value?

Jeff Phelan
So, the answer is yes, you're correct. And what I can tell you is that land prices have increased, as we all know, and it makes it more and more competitive, especially in the markets that we're trying to build assets in today. So, what I will tell you is we're continuing to evaluate the land sites as they come along. We have our local teams on the ground trying to find off-market land sites, which we have been very successful with in the past. And we continue to evaluate not only the rents in those markets, but the land prices, construction prices and in addition try to align that with the current pipeline of development that we have today and making that all work together. So, in simple, the answer is yeah, it's getting more competitive out there, but I feel confident that our local teams are doing a great job.

Eric Frankel
Okay, sounds good. Thanks, guys.

Jeff Phelan
You bet.

Operator
The next question is also a follow-up from Emmanuel Korchman with Citi.

Michael Bilerman
Hey, it's Michael Bilerman. Matt, just I'm thinking about the ramp in FFO throughout the year, your $1.90 to $2 is, call it, $0.48 to $0.50 quarterly, but clearly as you talked about a little bit in your opening comments you have the front ended dilution from selling earlier than the reinvestment. You also have the bond deal. I'm just curious where you see yourself annualizing at the end of the year to bridge the gap a little bit between where current consensus is just a little bit over $2 for this year and upwards of $2.12 for 2016. I'm just trying to think about how much of this is just a delay in earnings recognition and how much of it is just not having those earnings?

Matt Murphy

Well, you characterized it right to begin with, Michael, which is you will build towards the end of the year to get to a run rate that I think, honestly, this year's expectations are consistent, call it $2, is a good sort of over/under. I'm not about to get into '16, but I think the way we're approaching this, from a continuing to try and drive cash flow growth, you would hope that will continue to manifest itself in outsized same store performance. And therefore if the launching point is right you will do better as a result of it. So I do think the growth you described it sitting or looking at my own quarterly forecast you described it right that you're starting to see the top line grow. The bond deal will sand the edges off of that once you get towards the end of the year. And I like our prospects going into 2016 because of the strategy we described, I'm going to be hard pressed to quantify it '16 at this point.

Michael Bilerman
Was there anything particular about coming out of the fourth quarter in terms of the run rate. You sort of were just a hair below the midpoint of your full-year guidance, which was call it $1.895 you came in at $1.89, the high end was $1.92. What didn't happen to take you towards that high end with pretty robust same store growth that perhaps a weaker 4Q is what's driving a little bit of the lower 2015 guidance relative to where the street's at currently?

Matt Murphy
I think in terms of '14, what the street missed primarily with G&A, which had a bigger fourth quarter than the run rate going into it and it was really the acceleration of some vesting to a certain degree, due to some personnel changes. Quite honestly, the number I missed in the fourth quarter was really the CAM reconciliation process that you go through annually, is a polynomial that never stops moving till December 31st, but you've got to predict it throughout the year. That was about a $0.5 million miss from my own numbers which really in theory only $125,000 of it should have been in the fourth quarter but because you are truing it up at year end, it all ends up in the fourth quarter.

So I think those are two things, neither one of those should be extrapolatable, obviously the CAM reconciliation, a quarter of it's extrapolatable. But I think that's how you, despite having occupancy be a little bit better than we thought, we ended up with the FFO being a little bit lower than we thought, my miss was about the CAM reconciliation, I think the street was G&A and I saw that coming more, so.

Michael Bilerman
But was there anything to get to $1.92, it would have been another $2.6 million of FFO in the fourth quarter, the $0.03. I'm just curious what was, when you revise the last quarter the guidance you raised the low end to $1.87, you kept the top end at $1.92, you came in at $1.89, was there anything particular, it's a $2.6 million $0.03 gap towards the high end, I just want to make sure we're not missing anything.

Matt Murphy
Yes. I don't think you are. There was a few big pieces moving around in the fourth quarter that you never know about timing which is why you give yourself a little, I mean we had an equity offering, $112 million disposition. And year end occupancy you're guessing some of that's seasonal. So I don't think you're missing anything. I just think there was the timing of those within a quarter can move the answer a lot. Columbus moves 45 days one way or another, which there was no reason to assume it would, but the acquisitions that have a financing component of it, you never know when they're going to close. So really it was about the timing of a couple of the big movements, that's why the range was as wide as it was.

Michael Bilerman
Okay. Thank you.

Phil Hawkins
Thanks, Michael.

CONCLUSION

Operator
Ladies and gentlemen, this concludes our question and answer session. I would like to turn the conference back over to Phil Hawkins for any closing remarks.

Phil Hawkins
Well, thank you very much for participating. Look forward to being in touch with each of you on the call. And happy to answer any further questions if you have them and we look forward to seeing you at a number of the investor conferences coming up in the next month or two. Take care.

Operator
Thank you, sir. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.