DCT Industrial

First Quarter 2015 Earnings Call

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CORPORATE PARTICIPANTS

Phil Hawkins – *Chief Executive Officer*

Melissa Sachs – *VP of Corporate Communication and Investor Relations*

Matthew Murphy – *Chief Financial Officer*

Neil Doyle – *Managing Director Central Region*

PRESENTATION

Operator
Good day and welcome to the DCT Industrial First Quarter 2015 Earnings 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 (0). After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star (*) then one (1) on your telephone keypad. To withdraw your question, please press star (*) then two (2). 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. Hello everyone and thank you for joining DCT Industrial Trust's first quarter 2015 earnings call. Today's call will be led by Phil Hawkins, our Chief Executive Officer and Matt Murphy, our Chief Financial Officer, who will provide details on the quarter's results as well as our updated guidance. Additionally, Neil Doyle, our Managing Director of the Central Region will be available to answer questions about the markets, development, and our real estate activities.

Before I turn the call over to Phil, I would like to remind everyone that Management's remarks on today's 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 the Investor Relations section of our website at dctindustrial.com. And now, I will turn the call over to Phil.

Phil Hawkins
Thanks, Melissa and good morning, everyone. We had an excellent first quarter with strong operating results coming in ahead of our internal projections. Rent spreads were 5.5% on a cash basis and 14.3% on a GAAP basis, while same-store NOI growth was 10.9% on a cash basis and 7.2% on a GAAP basis. We are increasing same-store NOI and FFO per share guidance as a result of the first quarter results and our continued positive outlook for the year. Matt will provide more detail and color on our operating metrics and guidance shortly.

Looking ahead, market fundamentals remain quite positive. Tenant leasing remains active across all size ranges and most industry verticals, while rents continue to move up as vacancy levels continue to decline. The question everyone likes to ask about is new supply, which remains well in check. In fact, the amount of space under construction in our markets declined 15% in the first quarter to 102 million square feet from 122 million square feet in the fourth quarter. Space under construction went down in nine of our 13 focus markets and in the four of our markets where it went up, the increase was nominal. Given strong leasing activity, favorable rents, and low vacancy rates, I expect supply to increase throughout this year but to remain at levels that makes sense relative to net absorption.

The days of under supply driven by capital constraints are over, but the vast majority of development funding continues to be from institutional equity rather than bank debt, which brings a higher level of discipline and knowledge to decision making about construction starts and leasing than was the case in prior cycles. The investment market remains white hot, with cap rates and prices per foot now exceeding prior peak levels in virtually every U.S. market. CBRE estimates that cap rates came down another 25 basis points in the first quarter, driven by an unprecedented wall of capital that all of you are quite familiar with. CB also estimates that there is a four-to-one ratio of institutional capital dollars looking for product, relative to product expected to be marketed.

While we were able to close a few acquisitions in the first quarter, all of which were sourced fairly early in the fourth quarter, we are reducing our acquisition guidance for the year, as it is becoming more and more difficult for our market teams to find acquisitions that make sense from a quality and return perspective. Our teams will keep looking and may find some decent opportunities, most likely smaller in size and off market, but our updated guidance is a better reflection of our lower volume expectations.

Offsetting the reduction in acquisition volume is an increase in our development start expectations driven by two recently signed build-to-suit projects totaling 1.4 million square feet and a third significant project on existing land which, while not signed, we are optimistic about execution. The two signed deals will start mid-year, while if successful, the third project will start later this year. Beyond these three build-to-suits, the balance of our development and redevelopment program continues to go well.

We stabilized six development and redevelopment projects in the quarter totaling 967,000 square feet. These projects are now generating a yield on cost of 8.9%, 170 basis points above initial pro forma, due to higher than expected rents. Moving the two stabilized development buildings into the operating pool did drop the lease percentage of our development pipeline to 7%, a number we expect to move significantly higher over the next several quarters. Activity on our development projects is strong, with a number of leases at the LOI stage or better. Ultimately, with market cap rates falling and rents rising, the value and cash flow creation from our development and redevelopment program looks even more favorable today than when we initiated the project. With that, let me turn it over of Matt, who will review first quarter results and our updated guidance for the year. Matt?

Matt Murphy
Thanks, Phil. Good morning everyone. Our first quarter results represent an outstanding start to 2015 and reflect both the improvement in quality of our portfolio and the strength of industrial fundamentals. Virtually all of our operating metrics were ahead of plan. Consolidated operating occupancy ended the quarter at 95.3%, ahead of our initial expectations. This was driven by better than anticipated leasing as well as the holdover of one of the large anticipated move-outs I talked about on the fourth quarter call. This 215,000 square foot tenant, whose lease expired in February, signed a short-term amendment to remain in their space until June and there is now some optimism from our local team that they might stay longer.

Rent growth continues to be strong in our portfolio with cash rent spreads coming in at a positive 5.5% for the quarter and GAAP rent spreads posting an increase of 14.3%, ahead of expectations. This is the 15th straight quarter with positive GAAP rent growth. What's just as encouraging is that the positive rent growth trends are very widespread throughout the portfolio with eight of the 14 markets with leasing activity this quarter showing double-digit growth in net effective rents.

Retention was just under 67% for the quarter and while that is an unusually high number, it does reflect renewing two of the three largest remaining expirations scheduled in 2015, taking that risk off the table. In my opinion, the brightest spot of our Q1 2015 results, continuing a trend over the past several years, is same-store NOI growth. Our 53 million square foot same-store portfolio produced NOI growth in the first quarter of 10.9% on a cash basis and 7.2% on a GAAP basis. While the largest driver of these excellent results is undoubtedly the 180 basis point increase in average occupancy year-over-year, it should also be noted that almost one quarter of the growth in rent, or $1.2 million, is related contractual rent bumps. For the last several years, our market teams have been prioritizing negotiating market-leading rent bumps wherever and whenever possible, and the results are really paying off.

Further, while we continue to focus on improving the quality of the portfolio overall, the recent changes in our portfolio are a huge component of our same-store results. While the additions to our same-store pool since 2012 have performed very well, posting cash same-store growth of 14.4% in the first quarter, those properties represent only 16% of all same-store assets and therefore, only increased our cash growth by 60 basis points.

Turning to guidance, we are raising and narrowing our 2015 FFO guidance to $1.90 to $2.00 per share, up from $1.86 to $1.98 per share. This is primarily due to our positive start from an occupancy perspective and the continued strength of leasing both in terms of volume and rental rates. As a result, we are also raising our 2015 same-store NOI guidance to an increase of 4.25% to 5.75% on a GAAP basis, and 5.75% to 7.25% on a cash basis, an increase of 75 basis points at the midpoint in each case.

From a capital deployment perspective, we are increasing our guidance for development by $100 million, to between $200 million and $300 million. This reflects the two build-to-suits Phil mentioned, as well as our optimism regarding leasing in our existing development portfolio. Three of the starts that would be needed to get to the upper end of our new range are contingent on leasing of existing projects, and we remain optimistic that we will be able to sign the leases we believe are prudent to allow us to start those project in 2015.

As Phil mentioned, cap rates continue to fall and liquidity continues to rise in the acquisition arena, and as a result we are lowering our acquisition guidance to between $100 million and $200 million. Our plan to fund this investment will remain pretty constant with the majority of the capital coming in the form of proceeds from asset sales, as well as leveraged neutral incremental debt.

Demand for institutional quality assets is at unprecedented levels driving pricing above our expectations. Our guidance for dispositions in 2015 remains unchanged at $250 million to $350 million. On the capital markets front, we closed on an amendment to our bank facilities in April that reduced our current borrowing rates by 20 to 25 basis points, increased the size of our revolving line of credit by $100 million to $400 million, and extended the maturity date of the revolver and $125 million of our term loan until 2019 and 2020, respectively.

We did not issue any stock under our ATM during the quarter; in fact we last utilized it in October 2014. While we are focused on funding our activities through dispositions during 2015, as I mentioned earlier, we are planning to reload the ATM program during the second quarter to maintain optionality.

In summary, Q1 was a great start for DCT. Our quality portfolio and talented teams combined with the solid market fundamentals to produce excellent operating results, leading us to raise our financial expectations for the year. In addition, our value-added development program stabilized almost a million square feet of high-quality facilities at rental rates and returns that far exceeded our expectations while simultaneously restocking our pipeline with compelling land and build-to-suit opportunities, both of which we believe will create significant value for our shareholders. While we still have a great deal of work to do ahead of us for the remainder of the year, it's very hard to have a great year in this business without having a great start. We believe that our first quarter provides that great start. With that, I'll turn it back over to Alison for questions. Thank you.

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. We ask that participants limit themselves to 1 question and a single follow-up. To ask a question you may press star (*) then one (1) on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star (*) then two (2). At this time we will pause for a moment to assemble our roster.

And our first question comes from Jamie Feldman from Bank of America. Please go ahead.

Jamie Feldman
Great. Thank you. Good morning. So, just starting out, the investment sales market is very hot. Any thoughts on selling more assets and bigger chunks of the portfolio, given the pricing and demand we're seeing?

Phil Hawkins
This is Phil. We think about it; we've got a list. In my view, we've been well rewarded by match funding. We've really sold a lot of assets over the last several years at cap rates that I'm pretty pleased with. With that wall of capital that's in front of us, I am not too worried about the window closing too quickly. I think we're well-served to preserve our balance sheet, preserve our income statement. We've got a great portfolio. And the assets we want to sell, frankly, are not assets we mind owning. We just think that if we can replace them with higher returning development and/or acquisitions, which may come, that we will. If not, we are fine owning them.

Jamie Feldman
Okay. And then a follow-up was, with KTR already trading or has traded, can you talk about some of the portfolios on the market today? And the extent we may see more, given the pricing we are seeing, and what kind of pricing you think we will see as those portfolios close?

Phil Hawkins
I don't, there are number of portfolios on the market, or rumored to be on the market or in conversations. I think the KTR transaction was at economics that are pretty expected. I think the pricing on that was right down middle of the fairway, from what I would have expected. And this reflects the huge wall of capital that's out there, that's just one example.

I think you will see a few others. I think you'll see few others maybe in the relatively near future, but I don't want to predict publicly who and what and when, or frankly at what pricing. I think what it does, with both IndCore and KTR, I think what is shows is how private investors are evaluating industrial real estate and they are doing so, I think, more richly than the public markets currently are. When I look at stabilized yields of mid 5s, I look at price per foot in the high-80s, and I compare that to a company like DCT, whose portfolio, the markets are better located than either of those two companies. The lower cap rate markets, the price per foot is substantially lower, the implied cap rate at a current stock price is a touch above six. I think that

that's pretty compelling and that's, to me, how I think about those transaction, is that they will continue to provide, I hope and I believe, support for public investors, public REIT investors, to appreciate the value that others in the private sector are seeing right now.

Jamie Feldman
And I'm supposed to only ask one, but just a follow-up to that. Why do you think the private market is more comfortable with the supply story than the public?

Phil Hawkins
I can't answer that question. I think they are well informed. I think they are probably more granular in their analysis, more comfortable in what they are seeing and hearing from a capital funding perspective. They are looking at other alternatives that they don't see to be any more appropriately priced. And so, I am sure there is a lot of different reasons. And I am not sure that that's the reason why the public markets have underappreciated industrial this year, although it's certainly an obvious or a likely explanation, but the underperformance of public industrial REIT stocks is pretty striking in comparison to what's happening in the private capital markets right now.

Jamie Feldman
Okay. All right. Thanks, guys.

Operator
And our next question comes from Gabriel Hilmoe from Evercore ISI. Please go ahead.

Gabriel Hilmoe
Thanks. Matt, just on the move in FFO guidance, the fundamentals are obviously very strong in your portfolio, but is there any accretion from just backing down the value-add acquisition target, just given where the year one cap rates have been trending on some of those deals? And then, just ramping up the development and redevelopment pipeline and how the cap interest might be impacting this year?

Matt Murphy
Yes, I think there is some impact to the change in timing, the change in volume of acquisitions. Obviously, the acquisitions that we been doing have been in the near-term, pretty dilutive to FFO. So I think there is some, but I don't think, as I said in my initial remarks, I don't think that it's the primary focus. I think clearly operations are what's driving it. You know, timing of sources and uses is always a difficult thing to predict, and I think, net-net, capitalized interest is part of it, as you mentioned, it probably is impactful but less than a $0.01 on my numbers of the $0.03 at the midpoint is related to that.

Gabriel Hilmoe
Okay. And then just maybe a follow-up for Phil. I appreciate your commentary just on the activity on the development pipeline and trading paper on some of the space, but any more color you can provide just in terms of how conversations are going, maybe relative to 3 months ago? And just any more color on what tenant activity is like, just on some of the developments?

Phil Hawkins
I am not going to do it specifically for competitive reasons, if nothing else. A couple of things. One, activity is good, really across markets. Two, I would say, tenants are taking a little longer to make decisions than they were a year ago. Frankly, they've got more choices. It's a healthy market, but there are choices, and so tenants can be a little bit more precise. Maybe they would

have taken a little bit more space or a little less space to fit into the one building that was available. Today there's a more wide range available out there and again, they can be more precise in meeting their actual requirements.

And then lastly, we have had, we are moving forward with multi-tenanting many of our buildings. A couple of years ago, we probably would have pre-leased those buildings to a single user, and today that is less likely to be the outcome, although in one case, one of our large buildings, we are in talks with a single-building user.

In other cases, we've had discussions with single-building users. What's happened with those buildings, those users have increased the size, all of a sudden, beyond what our building can accommodate. They move to a build-to-suit or they just drop their requirement altogether. And so there is definitely a little bit more changing and delaying going on, from a decision-making perspective, not to a point that I would say where it was three or four years ago, but it's certainly not what it was a year or two ago.

In summary, that means we underwrite 12 months of lease up and I'd say on average we should expect to use about that much. Hopefully we will have a number of projects coming quicker than that. We'll probably have a few that come in a little slower than that. The yields will still outperform, but the lease up is going to take a little longer than it would have, again, when we were an early mover a few years ago.

Gabriel Hilmoe
All right. Thanks. I appreciate it.

Operator
And the next question comes from George Auerbach from Credit Suisse. Please go ahead.

George Auerbach
Thanks. Good morning. Phil, I was going to ask you about build-to-suits and whether you were seeing more leverage with tenants, especially after the two build-to-suits you signed this quarter, but it sounds like after those two comments on Gabe's question, tenants still have plenty of options and even though supply is ramping down nationally, it doesn't sound like it's really changing for the better. Discussions on the development pipeline?

Phil Hawkins
I wouldn't say they have got plenty of options. They have more options; a couple of years ago, they had no options. And build-to-suits are happening for, and continue to happen, although I think the ratio of build-to-suits to spec in most primary markets where there is a healthy supply of inventory, both existing, or second generation as well as first generation, I think, from a timing and certainty perspective and in some cases a cost perspective, the existing inventory, whether it be first generation or second generation is probably the preferred option and you will see more of that.

But the 2 build-to-suits we've done happened because the size requirement couldn't be met at all in two markets that, I think, you all would consider to be having plenty of supply underway. But that supply is rational and spread across a number of different sub-markets and locations. And so you still see situations where a customer can't find its requirement for whatever reason in what's available.

And as an example of what's going on, the build-to-suit we're doing in Atlanta actually started out as a prospect for River West and they outgrew it. There was an M&A transaction in their business and all of a sudden, we really thought we were down at the 1-yard line on River West, which would have been our preferred outcome to be honest, but we are happy to accommodate in the alternative, and they simply outgrew it and it wouldn't work. And so our Atlanta team did a great job at moving into motion looking for additional land sites and solutions, and thankfully the relationship and their efforts resulted in a solution that worked well and we are moving ahead with a different project. We are happy with that, thrilled with that.

George Auerbach
Yes. Matt mentioned some leasing hurdles that you guys will need to achieve to keep on the spec building, or bringing more spec building along. Can the LOIs that you discussed get you to those hurdles, assuming that you sign those leases, and more broadly as we think about the next $100 million and $200 million of starts this year, which markets do you expected to deploy that capital in? Is it going to continue to be the Seattles, the Atlantas, the Dallases, or to your point in the last question, really more tenant driven than market driven?

Phil Hawkins
I would say the one market you will see us likely start would be, we have a relatively large building in Tracy, in Northern California, that we are working hard to get fully entitled and ready to launch. It's a good experience in how hard it is to get buildings approved and ready to go. That building, I would like to see a little more leasing in our pipeline in general but we don't have any else in Northern California, before we start that one.

We have a few other markets where we have land and may start. We closed, actually yesterday but after the press release went out, on some land in Miami, right next to our other project we developed a couple of years ago. That could start this year. It may not, but again it's all a function of getting it ready.

And then anyway, we do have land and projects ready to go further in several sub-markets in Seattle. We have Jurupa Ranch in Southern California, a large million-foot project that both is getting some interesting pre-leasing that may or may not happen, but also we've got good leasing on the Rialto project that hopefully will happen and we are optimistic about but you never know.

We've got a site in Dallas to go that we will likely start if we close some leases that we hope happen on the two smaller buildings under construction right now that are leases going well there. We started a project in Chicago recently. Got one starting off in Atlanta this year, but other than the build-to-suit, and probably there are other projects that I am not thinking about, but anyway, like Matt said, a number of them will require leasing, in our view, to move to the next step and in most cases, there are prospects, if not better than prospects, that we are optimistic about. But only time will tell. And we will be disciplined in terms of starting projects only after those that are already in the market have proven themselves out.

George Auerbach
Great. Thank you.

Operator
And the next question comes from Eric Frankel from Green Street Advisors. Please go ahead.

Eric Frankel
Thank you very much. I am sure you're aware of some Houston-based or Houston-focused

REIT benefits, and the share price declined precipitously last few months. So, I wanted to get your views on the public market's perception of Houston and what's actually occurring and given if there is a divide, are you a seller or buyer in that market?

Phil Hawkins
I didn't understand, the public market perception of what?

Eric Frankel
The market perception of Houston, yes, sorry.

Phil Hawkins
Houston, I am sorry. We were a seller in the fourth quarter, as you may recall, at pricing that we thought that was incredibly attractive for B assets, and we are happy to be a seller. We also continue to look and could be a buyer.

I think Houston is holding up better than some may have feared, or some may currently think. But clearly the risk or the uncertainty in that market has gone up, if not the actual results have deteriorated. And as a result, as I think about it as a little higher risk, but there is a lot of strength in that market, both short term and long term that I really appreciate. While the upstream exploration companies clearly have cut back, the downstream firms are on fire right now. That's driving demand and more activity in the port than ever before.

We are well aware of that. We bought two buildings in that sub-market a couple of years ago. We've got some ideas that we are thinking about there that would be interesting if we could pull it off. At the right pricing, we would be a buyer of assets, quality distribution assets in the North and Northwest. We don't have any land and don't anticipate buying any more land. We have several buildings to lease still, both development and then also in the shells we bought. So we've got work to do there.

Our current portfolio is 99% leased, so it's doing well. The first quarter reports that we got internally from Justin and his team are very healthy in terms of the way the lease is going. Rents have held up reasonably well. You have probably seen a few cases of concessions go up a little bit. Rents are not going up, that I think, is almost for sure. So I don't think Houston is clear-cut. It's not a, heck yeah, let's sell, or, let's double down. I think it's a market that we like long term. We've got a great operating team that will continue to look for rifle-shot opportunities that hopefully will be value-creating. And if not, we love what we have and we are happy standing pat.

Eric Frankel
Okay, great. A follow-up question for Neil. This is related to one, where has supply come down according to whatever market statistics that you're referring to? And two, if you could talk about the entitlement process a little bit? Has that really changed much between now and in the last major development cycle? And is that what, in your view, is restricting supply a little bit? I would like to get your thoughts on that. Thanks.

Phil Hawkins
Let me answer the first part of the question because I've got the numbers in front of me. And then I will turn it over to Neil to answer the second part of your question. So, in our markets, those that have come down because, under construction. Baltimore, Washington, Houston, Miami, Northern California, Pennsylvania, Chicago, Dallas, Orlando, and Phoenix. The other side of that question, what went up? New Jersey went up slightly, from 2.3 million to 2.6 million,

Seattle went up slightly from 3.8 million to 4.1 million, Southern California went up slightly 17.5 million to 17.9 million overall, Inland Empire 14.2 million to 15.6 million, Atlanta went up from 15 million to 15.6 million, Louisville went up from 0.6 million to 1.6 million, and Nashville from 1.1 million to 1.7 million. And those are from CoStar, which for consistency purposes across markets, is the service we use the most above all from a local perspective. But we also use other services, other firms that will probably give us more granular information. Neil?

Neil Doyle
Sure, Eric. Relative to the entitlement and how that may or may not be constricting supply, nothing has jumped out to us nationwide when we're on the phone internally as to, is California still difficult for entitlement? Sure, and we underwrite that time period into anything we are looking at. Texas has always been pretty simplistic on the entitlement side of things.

You come to the Midwest, it's not entitlement issue that may slow down some of the supply. I think Chicago, for example, has been pretty disciplined on supply.

I would argue more that, in some more mature markets, just finding land is difficult and you're piecing things together and you're trying to get over hurdles that you wouldn't take the time for during the last bull run. You would've just walked past it to get to the next site. Today, that next site doesn't exist or it's already been built on, so you come back to something that has a little bit more of a hurdle to get over.

There's also another point here relative to supply and why I think it's been relatively disciplined and hopefully will continue to be. As Phil points out, it's equity-based capital, certainly more on this cycle than priors, but also a lot of the money that flooded into industrial real estate didn't exactly have the expertise for development, certainly not redevelopment. And so one of the gauges I watch, is who has being hired where, and there is plenty of money that you may not have heard about and once they hire someone that knows what he or she is doing, that to me is a sign that they are getting pretty serious about development. So I really point to those two things, and to date it seems relatively disciplined, some areas more than less, but I would go back to those two points.

Eric Frankel
I appreciate the color. Thank you.

Operator
The next question comes from Brendan Marionana from Wells Fargo. Please go ahead.

Brendan Marionana
Thanks. Good morning. So Matt, your average occupancy for the year is 94.5% to 95.5%. I think that is same-store, which compares to 94.5% average for the quarter. So one, is that correct? And two, as you think about the progression throughout the year to be at an average of 95% midpoint of your guidance, does that assume ratable increases throughout the year, such that you would end the year towards the high end of the range?

Matt Murphy
Yes, Brendan, so the 94.5% to 95.5% is operating as opposed to same-store. The numbers aren't that dramatically different, but the comparison point today is 95.3%. But I do think that the rest of your description is pretty accurate, in that I think we'll end up the year higher than we will average throughout the rest of the year, but it's not, quite honestly, we're forecasting remaining pretty constant today. There is arguments to be made for why that's conservative.

There is arguments to be made that there are still leases to be done that aren't identified or finished yet, which is why we have ranges. But I think your basic description is right, that we will drop down a little bit from where we are today.

I'm forecasting that 200,000 square foot space that I talked about as moving out at the end of June, although it may not happen that way. That's 30 bps all by itself, a little more than that actually. So I do think we'll end up higher than we will be during the summer. But I am not predicting a lot of the volatility in that number today, not because I can't see how it could happen. It's just hard to budget, cranking up above levels where we are today, although it could happen for periods of time.

Brendan Marionana
Yes, understood. Okay. That's very helpful. And then for Neil, so it looks like you guys did a nice pre-lease on this DCT North Avenue Distribution Center, but it says it's current customer. So, was the 350 that they're taking an expansion? And then can you give us a sense of the building that they are coming out of, backfill prospects and timing and things like that?

Neil Doyle
Sure. So as existing tenants, the way we do this, we have an existing tenant that we only actually put in the space a couple of years ago. And they were in, I believe, about 70,000 feet with us. No sorry, they were 150,000 feet with us. They were in another 100,000 with another known entity. And they were with 50,000 with a second known entity. So we had probably the most recent relationship with them in putting them into our space.

Getting to know them, they needed more space, they needed modern space, et cetera. So we located a site in Carol Stream that we thought could fit this building. And we have to knock down two old research buildings there, so we probably won't break ground until June, maybe July, with the actual new construction. Once we do that, we'll deliver it approximately 10 months later. And at that point, so now we are into May of 2016, where we will be looking to backfill that space. We have underwritten some of that lease exposure into the new deal. But we've got, as we sit here today, we've got a little about 13, 14 months before we have to see that space that they are coming out of.

Brendan Marionana
Okay. And you feel the space that they're coming out of is functional space that should have reasonable demand?

Neil Doyle
It's a Class A facility, multi-tenant, and it is right in the Central DuPage sub-market, which as you probably know, Brendan, is really doing very well right now.

Brendan Marionana
Okay, great. Thanks, guys.

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

Michael Mueller
Thanks. Hi. On the acquisitions, taking a look at the stuff you bought in the first quarter, it looks like a couple of buildings had fairly low occupancy, one of the buildings in Atlanta, it looks like you bought at 100% occupancy, with a tenant going out. Wondering what the leasing prospects

are for those acquisitions at this point? And what would you think a time to stabilize is?

Phil Hawkins
Well, the Hathaway building is empty and we'll be doing a fair amount of demolition. So what we're pre-leasing won't be ready till the first quarter of 2016. And we probably have nine to 12 month after that in the pro forma. Atlanta, similarly, we've got, I am sure leasing's got prospects, but nothing in it as far as I know, and we've got that underwritten probably for nine to 12 months as well.

Michael Mueller
Okay. So we are talking sometime in 2016 probably, on average?

Phil Hawkins
Hopefully better, but that's what I would underwrite, yes.

Michael Mueller
Got it. Okay.

Phil Hawkins
And the forecast reflects our pro formas.

Michael Mueller
Okay. And I think, on the developments you mentioned high yields for the stuff that was delivered this quarter. If you are looking out to the balance of the year, where are the yields coming in that you see on the product stabilizing?

Matt Murphy
Mike, so in terms from a blended perspective there, it's mid-sevens. I don't…

Michael Mueller
Okay. So on a full year?

Multiple voices

Matt Murphy
We don't do developments by building, which is why it's hard to go further than that.

Michael Mueller
Okay. But the Q1 stabilization, that was right? You said that's higher, right? That's in the 8s?

Phil Hawkins
Yes. They were significantly higher because of higher rents. I wouldn't expect that to necessarily duplicate itself for the rest of the year, although I hope it does.

Michael Mueller
Okay. That was it. Thank you.

Phil Hawkins
Thanks, Mike.

Operator

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

Manny Korchman
Hello, guys. Matt, what needs to happen for you to get to the bottom end of your guidance for the year?

Matt Murphy
Oh, if you're talking earnings guidance, the answer is simple, that you would have to have meaningful bankruptcies. You would have to really miss on retention in terms of what's left. And you would have to have pretty low, slower lease-up of what we have. Guidance ranges are challenging.

It's not like the outcomes are equidistant between the ends, I think, but the midpoint of guidance is the midpoint of my forecast, as I've said all along. It would be pretty hard to imagine hitting the bottom of it, absent big bankruptcies. There are single transactions that can turn that on you quickly. There's not enough exposure left with existing tenants to drop below the bottom of, say, occupancy and therefore, earnings guidance. But I believe the midpoint is where it should be.

Manny Korchman
And then in terms of the planned debt raise for the end of the year? What are your thoughts about either doing that earlier or coming out with some type of forward contract to lock in a rate now in a little bit versus waiting until the end of the year?

Matt Murphy
Well, I think the answer to both parts of that question is the same, which is there are enough moving parts for us. Well, first of all, it's hard to accelerate quickly because we are trying to get part of the use of those proceeds as maturities in the first part of 2016. But there is enough moving parts and sources and uses, we're talking about a lot of potential volatility in acquisitions. Start dates, we have already talked, about are dependent upon leasing, and so it's hard to predict the timing of it, which, to me, if it's hard to predict the timing, hedging is a bad idea. So it's one thing to take, I have said this before, one thing to take interest rate risk off the table of a known time transaction, but to just do an interest rate hedge without that certainty is speculating in a way that I don't think is appropriate. I am not an interest rate predictor. I don't want to be an interest rate predictor. And hedges are, by their nature, an interest rate predictor.

Manny Korchman
Thanks for that.

Operator
Our next question comes from Kyle McGrady from Stifel. Please go ahead.

John Guinee
Oh hi. John Guinee here. Just a little curious question here. Phil, if I look at your four buildings you acquired, 1.6 million square feet, $98 million. That's about $60 a foot for Northern California, but then some pretty low-cost markets in Atlanta and Denver. Was there a big number paid in Northern California and less in the other markets? Or can you elaborate on what seems like a high price per pound?

Phil Hawkins
$60 a foot per pound? Boy, I'm not sure that is a bad average in this world, having just seen the

KTR transaction. I would rather not elaborate too specifically between the buildings. I wouldn't classify Denver as a low cost or low price market. It's probably the best market in the country, from a demand perspective and investment pricing is strong as well. So I wouldn't put it in the same category as Atlanta. But it's safe to say, Atlanta is probably the lower price per foot of the three. All of them, in my view, were pleased with the pricing.

Northern California, for a lot of different reasons, probably the more aggressive of the prices, but because is the most significant of the value-added, it probably has a little higher cap rate than otherwise because of the redevelopment component of it.

John Guinee
Great. Thank you.

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

Craig Mailman
Hey, guys. So maybe you could just talk a little bit more about your guys' position in Seattle, particularly Sumner, given your availability and the availability pretty close by, by Panattoni and some others, and this is one of markets you were talking about, maybe moving more to a multi-tenant strategy in some of the buildings?

Phil Hawkins
Well, we have got the one big building of 650,000 and then we have a smaller building that is mostly leased, if not entirely. So it really comes down to our large building that we are actually moving towards a multi-tenant strategy with proposals out on a wide range of spaces. Sumner is the most active market, both when there's a development and demand, it's where the land is and where the growth is. And so, we've got our position limited.

We could build a 300,000 in addition to that at the same location as our larger building, but then we would, but that won't start until we get more leasing. We do have another building in Sumner South, and I forgot about that, but where we've got one, we've got about 60% pre-leased and leased it fairly early in the process, that building, that space actually has a lease out right now. Who knows if it'll happen. Frankly there is some M&A activity on that one too, that may put that into some question, although fingers crossed. So like I say, we've got lots of proposal activity. We were hopeful that was the one building, the big building, we were hopeful we had a single tenant user that was going to come down and take it all and take it all ahead of schedule. And that didn't happen.

Craig Mailman
Okay. That's helpful. And then just maybe thoughts here on the strategy on the dispositions. From here out, you guys got rid of a lot of non-core assets, and I know you want to match funds, but is it going to be more opportunistic at this point as well, as maybe you guys get some larger leases, longer-term leases done on buildings and maximize the value? Would you be more apt to take profits today on those? Or is it enough non-core in the portfolio that that's the 250 to 350?

Phil Hawkins
Well, I think opportunistic is the right way to think about it, one of which would be financial, for sure. We have definitely moved away from "non-strategic assets". There are always some assets we're going to find at the bottom of the list, from a quality perspective, but I don't think of

ourselves and haven't for a while, as being motivated by building function as much as building economics and market views.

The Memphis portfolio was a big accomplishment for us. Columbus, earlier in 2014, was a big accomplishment for us at pricing that we were thrilled with. Going forward, we continue to think about tax abated markets as markets that we are in and/or markets where we don't have people, where we are more likely to sell based on our view of those markets and our strength in those markets as an operator. And then we think about individual buildings.

You know, the Houston portfolio that we sold late last year was an opportunistic reaction to an inbound inquiry from a buyer that had been talking to Justin for quite some time. We finally had a use of proceeds that we thought was attractive. And so we entered into discussions and sold the building. Same could happen anywhere. So, really, I'm happy with our portfolio right now, and we will continue, though, to look for opportunities to upgrade the returns of the portfolio. And always, the quality, as we are able to deploy that capital into development and acquisitions.

Craig Mailman
Great. Thanks.

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

Ki Bin Kim
Good morning. This is Ki Bin. So just a couple of quick questions on the same-store NOI. How much does free rent burn off impact this current quarter? And how should we think about that throughout the year?

Matt Murphy
So from a current quarter perspective, it's roughly $1 million, actually a little bit less than that for the quarter, compared new free rent this time, compared to free rent in the first quarter of last year. What you are seeing is that number should decline over quarters. It's a hard one to predict, because you've got to predict the amount of free rent in the next lease as well. And one of the things I think we've done a good job of is, where appropriate, giving free rent in exchange for rent bumps.

It's interesting to me how some tenants want value. I will look at it is as a pure financial. Are you ending up risk-adjusted on a net present value perspective better with the overall lease term? A lot of people are more willing to give you $2 tomorrow to avoid $1 today than I would do. So it's a tough one to nail, but clearly you'll see the impact of that diminish as the year goes along.

Ki Bin Kim
Okay. So besides the free rent burn-off, it's simple math, but it would imply, based on your guidance, that same-store NOI should be decelerating, right, throughout the year? How much, besides the free rent portion of it, but how much of it is just purely a function of occupancy comps getting tougher in the second half? Or is that most of it?

Matt Murphy
Well, I think in terms of the decline, that's more than all of it. What's happening is you're seeing rental rate improvement carve out a bigger piece of the change pie, if you will, and occupancy, as I was talking about with Brendan, we're assuming that occupancy stays at more or less the

same level. So obviously, occupancy is going to decline as a function of it.

But I just can't emphasize enough how much embedded rent bumps are in the portfolio and how much those are going to contribute. Obviously those will contribute a larger portion of the growth going forward because occupancy can only increase up to a point. But I still like, again I am repeating myself, but I still like the fundamental economic realities of leases today is that they are more favorable and continuing to get more favorable in terms of the ability to pass charges through, in terms of increasing rent bumps, all of those intrinsic internal rent growth aspects of leasing continue to improve.

Ki Bin Kim
And if I can squeeze one quick one in there. Last time, I think you mentioned the rent bumps were 1.9% portfolio average. If I ask the same questions end of this year, does that change materially?

Matt Murphy
Well, if it was 1.9%, the question must have been a long time ago. The average net rent bump in our portfolio is 2.8%. What's hard is that they don't happen, from a modeling perspective, they don't happen during the year. I mean, they don't happen on a bell curve during the year, but the average net rent bump is 2.8%.

Ki Bin Kim
All right. Thank you.

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

Tom Lesnick
Good morning. Thanks for taking my questions. I know you talked about land earlier when it came to construction costs, but just talking about the labor market for a second, how tight is the labor market right now? Have you seen any meaningful uptick in construction costs because of it? And then maybe which markets is that more of an issue than others right now?

Phil Hawkins
Neil, why don't you field that one?

Neil Doyle
Sure. Tom, if you look at the cost of construction, your land component is obviously going to differ on your FAR coverage wherever you're at. So in some markets, it's a bigger percentage, others it's not so much. Your question then relates to labor, but I've got to throw materials in there with labor. It's the tight labor markets, I would say Houston is incredibly tight because of all the petrochemical construction, plants, plant expansions, et cetera. Dallas labor is relatively tight, plenty of office buildings, plenty of new homes. Out west, everything I hear out there is, things are pretty tight, especially Northern California. Seattle, the same. So I think wherever you have, who's going to take your labor? It's really going to be office construction and to a lesser extent, residential. So wherever you're at there, you're going to see higher labor. As a general rule, if everyone's busier, the margins are going up. So while we've seen healthy increases in costs in pretty much every one of our markets, to date it has been supported by the rents, and it's something we'll continue to watch as we move into 2015. But it's a good question because it's not just about land anymore. It's about labor and materials, as construction across the country has picked up. So we'll continue to watch it very closely in 2015 as we're

underwriting.

Tom Lesnick
That's really helpful. And my second question, just given what happened with the Port of LA this winter and the movement in the dollar over the last few months or so, I'm just curious, have you guys seen any noticeable change in demand with regards to Inland Empire?

Phil Hawkins
The short answer is no. If you look at CoStar's numbers for the first quarter, the Inland Empire had a good quarter, better than the first quarter of 2014. Bud Pharris, who's not on this call, he runs the West Coast for us. He'll tell you that there are a lot of tenants in the market right now, probably as high as it has been in a long time. He talked to customers and some of them did divert, during the strike, to Prince Rupert or other strategies. They have come back pretty quickly, because frankly the Port of LA and Long Beach is the lowest cost, quickest route. It's also the port where they can handle the larger ships and of all the other advantages that you know about.

So it appears as if people have moved on, and I know there was a lot of question or concern about that six months ago or three month ago. Probably still some doubt. But the early read right now is that the world has moved on, and it was not as significant of an event in terms of longer-term behavior as people might have feared.

Tom Lesnick
Great. Thanks for the insight.

Operator
As a reminder, if you have a question, please press star (*) then one (1). We have a follow-up question from Brendan Marionana from Wells Fargo. Please go ahead.

Brendan Marionana
Thanks. Phil, so it's pretty obvious you guys traded a big NAV discount as you talked about, given where asset values are and I know it's tough to find things to match fund in terms of the disposition, putting them into acquisitions, and I do think you want to grow as a company long term. But have you thought about maybe using some proceeds from asset sales for a share repurchase program as a way to buy back your own stock or invest in your own stock? Or is it because you want to grow long term, that's a difficult thing to do?

Phil Hawkins
Well, actually it's not because of that. Although, yes, we do want to grow long term. It's really because we're happy with the ability to deploy capital into high-return development and value. We can create a lot more value through development, and selling $250 million to $350 million of assets in a year for a company of our size is pretty healthy turnover. We've looked at stock buybacks as a theoretical exercise. You would want to do it on a leverage neutral basis, so the impact, therefore, is not nearly as significant as you might think. And then you run into other challenges as well. So I think in the current environment, we've got a use of capital. We've got a balance sheet that we like, but we don't want to use up any capacity on that balance sheet for internal purposes, or stock buyback purposes. I don't think stock buyback makes much sense in today's world. That could change quickly, but not as I see it as of this moment.

Brendan Marionana
Okay. Great. Thanks.

Operator
We have a follow-up question from Gabriel Hilmoe from Evercore ISI. Please go ahead.

Gabriel Hilmoe
Thanks. Matt, just going back to the same-store NOI guidance and the trend for the rest of the year. When you look at, say, the fourth quarter this year, what's being baked into the 5.75% to 7.25% range that's out there for the full year?

Matt Murphy
Specifically for the quarter, typically it's going to be in the 3% to 4% range, talking on a cash basis, which is going to be, at that point again, now you are really talking about comps on a rental rate in all of its similar-type items as opposed to occupancy, because basically you're going to get to the point where, based on the way we forecasted it, occupancy is fairly static.

Gabriel Hilmoe
Okay. That's helpful. Thank you.

Operator
Having no further questions, this concludes our question-and-answer session. I would like to turn the conference back over to Phil Hawkins for any closing remarks.

CONCLUSION

Phil Hawkins
Thanks everybody, for joining our call today. We appreciate your interest in DCT and look forward to seeing you at the May REIT, if not sooner. Take care.

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