DCT Industrial Trust Inc.

Fourth Quarter & Full Year 2016 Earnings Conference Call

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CORPORATE PARTICIPANTS

Phil Hawkins, *President and Chief Executive Officer*

Matt Murphy, *Chief Financial Officer*

Melissa Sachs, *Vice President, Investor Relations*

Bud Pharris, *Managing Director, West Region*

PRESENTATION

Operator
Good morning and welcome to the DCT Industrial Fourth Quarter 2016 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. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then 1 on your touchtone phone. To withdraw your question, please press star, then 2. Please also note that this event is being recorded.

I would now like to turn the conference over to Ms. Melissa Sachs, Vice President of Investor Relations. Please go ahead.

Melissa Sachs
Thanks, Andrea. Hello, everyone, and thank you for joining DCT Industrial's Fourth Quarter & Full Year 2016 Earnings Call. Today's call will be led by Phil Hawkins, our President and Chief Executive Officer, and Matt Murphy, our Chief Financial Officer, who will provide details on the financial results and our '17 guidance. Additionally, Bud Pharris, our Managing Director of the West Region, will be available to answer questions about the market development and real estate activities.

Before I turn the call over to Phil, I would like to remind everyone that management's remarks on today's call will include forward-looking statements within the meaning of federal securities laws. This includes, without limitation, statements regarding projections, plans, or future expectations. Actual results may differ materially from those described in the forward-looking statements and will be affected by a variety of risks, including those set forth in our earnings release and in our Form 10-K filed with the SEC as updated by our quarterly reports on Form 10-Q. Additionally, on this conference call, we may refer to certain non-GAAP financial measures. Reconciliations of these non-GAAP financial measures are available in our Supplemental, which can be found in the Investor Relations section of our site at dctindustrial.com.

And now I will turn the call over to Phil.

Phil Hawkins
Hey, good morning, everyone. Thanks for joining the call. DCT's fourth quarter was a strong finish to an excellent year. Our business continues to perform very well, supported by market conditions which remain as good as I've ever witnessed in my career. DCT's consolidated operating occupancy increased to 97.2 percent, a 100 basis point increase over last quarter and a 280 basis point increase over year end 2015. Rents on leases signed during the quarter increased 19.3 percent on a straight-line basis and 8.9 percent on a cash basis over the expiring rents. Our high occupancy and rent growth led to an 8.9 percent increase in fourth quarter same-store NOI on a cash basis and 7.4 percent on a straight-line basis.

2017 is off to a good start as well, with 612,000 square feet of new leases and 440,000 square feet of renewals signed so far. January results include backfilling our largest known 2017 move-out in Atlanta, with no downtime, and renewing three-quarters of our 2017 Houston expirations. The straight-line rent spreads on these two transactions were 22.6 percent in Atlanta and 17.3 percent in Houston, consistent with our view that rent growth will continue to be a major driver of our results throughout the year, and we expect these positive market fundamentals to continue throughout 2017.

Tenant demand remains strong, with no noticeable change in behavior since the election. Market vacancies are 6 percent or less in our markets, and new supply remains disciplined and rational, both in terms of start levels and developer leasing behavior. Strong manufacturing numbers in recent months also are a positive indicator of continued healthy future demand for distribution space.

Our development program continues to achieve results well ahead of our initial projections for each project, creating substantial value for DCT. During the fourth quarter, we stabilized four development and redevelopment buildings totaling 877,000 square feet, with a projected investment of $79 million and an anticipated weighted-average yield of 7.4 percent. Based on CBRE's, average Class A cap rates for each market, we estimate the assets stabilized in the fourth quarter have a current value of $38 million more than our investment, a value creation margin of 48.7 percent. For 2016, we stabilized $437 million of development and redevelopment projects, with an estimated value of $214 million greater than our cost, a 49.1 percent margin.

We commenced construction during the quarter of six buildings totaling 1.3 million square feet, located in Chicago, Dallas, Miami, and Southern California. Our current development pipeline is now comprised of 14 projects with an expected investment of $319 million, a projected yield of 7.5 percent, which is at least 250 basis points above current market cap rates, indicating the potential for substantial value creation upon stabilization.

This combination of stabilizing 580,000 square feet and starting 1.3 million square feet during the quarter resulted in a decline in our development pipeline pre-leasing from 40 percent last quarter to 26 percent; however, leasing activity is very good on each of our projects, and we are confident that the pipeline will continue to outperform our initial expectation for both lease-up and returns.

Our focus will remain on our development program in 2017 as it presents the best opportunity to create value and to keep upgrading our portfolio. Just as they did in 2016, our market teams will continue to look for a few complementary acquisitions that make sense from a quality, location, and return perspective, but we expect the amount to be under $100 million for the year.

With that, let me now turn the call over to Matt.

Matt Murphy
Thanks, Phil, and good morning everyone. As Phil said, the fourth quarter capped off a remarkable 2016 at DCT. Virtually every operating and financial metric exceeded the fairly lofty expectations we had for the year. We exceeded guidance in funds from operations, same-store NOI growth, and occupancy. We surpassed our capital deployment objectives, adding more than initially forecast to our development pipeline, and, more importantly, we exceeded our operating and financial expectations for the projects we completed and stabilized this year. We also took the opportunity to invest a portion of this outperformance in our balance sheet, improving our credit metrics and de-levering above and beyond the targets we established before the year began, all of which contributed to the upgrade we received in our credit rating during the year. By any objective criteria, it was an incredibly successful year.

This positions DCT very well heading into 2017. As Phil described, the operating environment in our business is in excellent shape. Market occupancies are at historical highs, and tenant demand remains robust, with e-commerce and other logistics trends enhancing an already solid macro economic backdrop. We are initiating 2017 funds from operations guidance at between $2.32 and $2.42 per fully diluted share. At the midpoint of $2.37, this represents an increase of 4.4 percent over 2016 FFO as adjusted; however, considering the $2.8 million of casualty gains recognized in 2016, which we do not expect to recur in 2017, the growth would be closer to 6 percent. Similarly, in 2016, we recognized approximately $3.5 million in miscellaneous income or one-time items, along with about $900,000 of termination fees. The midpoint of 2017 guidance reflects about $1.5 million of one-time items and zero termination fees. While the magnitude of miscellaneous fees in 2016 is directly correlated to the tightness of the leasing market and we believe that strong landlord-friendly market will continue in 2017, I don't believe it is prudent to count on a similar level of fees in our base case forecast.

From an operating perspective, we expect our metrics to remain very strong in 2017. Our guidance is predicated upon consolidated operating occupancy averaging between 96 and 97.3 percent. Occupancy will likely decline modestly in the first and second quarters and then climb to between 96.5 and 97.5 percent at the end of the year. We are expecting re-leasing spreads in 2017 to remain consistent with 2016 as market rents have continued to perform well, rent concessions remain very low, and market standard rent bumps continue to enter uncharted territory. In addition, almost 40 percent of leases expiring in 2017 were signed during the bottom of the recession, which is consistent with the lease rolls in 2016, where we averaged straight-line re-leasing spreads of 18.4 percent.

All of these factors should combine to produce same-store NOI growth in 2017 of between 6 and 7 percent on a cash basis and 3 and 4 percent on a straight-line basis. The same-store pool represents 58 million square feet, which was 97.1 percent occupied at December 31, 2016. The growth in cash NOI will be driven by excellent embedded rent bumps, strong re-leasing spreads on the square feet which rolled in 2016 or expires in 2017, and the burn-off of free rent. This is budgeted to be offset somewhat by the decline in one-time items I mentioned earlier as effectively all of the $3.5 million of miscellaneous income in 2016 occurred in the 2017 same-store pool.

Turning to capital deployment, we continue to be pleased with the depth and quality of our development pipeline. Our guidance contemplates development starts of between $225 [million] and $325 million. All of this activity can be achieved on land we currently own or control and includes a number of markets, such as New Jersey, Baltimore, and Denver, where we didn’t have buildings underway in 2016. These projects represent the fruits of many years labor in several cases as our market teams have continued to find creative solutions to development challenges that will allow us to bring state-of-the-art buildings to infill locations that have been undersupplied with modern facilities. We are also projecting up to $100 million of acquisitions, which are likely to be similar in nature to what we have executed in 2016. Any transactions are likely to be characterized by assets with a story, where we can reposition them or that are synergistic to our existing local portfolio.

Turning to our capital plan for 2017, we continue to target a funding plan which will maintain a debt-to-EBITDA ratio below 6 times. Our guidance calls for us to sell between $100 [million] and $200 million of lower-growth assets. Our guidance also calls for us to opportunistically issue between zero and $100 million of equity in addition to the $11 million we issued in January. With respect to debt, our plan contemplates between $300 [million] and $400million of debt financing during the year. We expect to evaluate various sources of debt capital, including potentially re-opening the bonds we issued in 2013 in order to maintain their index eligibility and for another larger bond transaction later in the year. For further details of our 2017 guidance, please refer to page 8 of our fourth quarter supplemental reporting package.

In closing, we feel very fortunate to be in the industrial business as we embark upon 2017. Our business is directly in the path of meaningful changes of how the U.S. population obtains an ever-growing portion of their goods. Our balance sheet is in better shape than ever as we execute on exciting value-creating opportunities to bring facilities to locations that will help support these dynamics today and into the future. Our portfolio is in excellent shape in physical terms and in terms of its rent rolls, and we have a team in place that has proven its ability to maximize occupancy while at the same time pushing the envelope in terms of rent and rent bumps. Most importantly, we are in a business where our customers are feeling and acting optimistically about their businesses and are willing to invest in facilities that will allow them to capitalize on the forces that are driving their worlds today. I think this as much as anything epitomizes how we at DCT view the opportunity of 2017 and beyond.

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

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. To ask a question, you may press star, then 1 on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then 2. Please also limit yourself to one question and one follow-up. If you have further questions, you may re-enter the question queue. At this time, we will pause momentarily to assemble our roster.

Our first question comes from Craig Mailman of KeyBanc. Please go ahead.

Craig Mailman
Thanks, guys. I'm curious, Matt, your comments on rent spreads being consistent from '17 versus '16, do you assume any market rent growth in that assumption, or is that just on current market rent? Just sense that there's potentially even more upside if market rents continue to grow.

Matt Murphy
Well, I think there is — there could be upside if market rents grow more than we think. Yes, there are always market — I don't assume it from a market, down, I assume it from a lease, up, but clearly, there is market rent growth embedded in some of the assumptions of what new leases will be in 2017.

Craig Mailman
Ballpark, about how much do you guys have embedded?

Matt Murphy
Probably 3 to 5. There's going to be certainly some markets that are higher than that and probably some that are less, and, again, it's not about what Atlanta's doing or what Dallas is doing. It's about specific sub-markets and locations within those markets.

Craig Mailman
Okay, that's helpful. And then just a follow-up on development. Phil, your comments about good activity across the board and your feeling about exceeding under any expectations is helpful. Just curious, though, looking at where starts guidance is coming in and the current leased rate of the development pipeline, just where outside of New Jersey, Baltimore, and Denver, where do you guys feel comfortable starting more spec or maybe where you'd want build-to-suits to add more product to a specific market?

Phil Hawkins
Well, I think our pipeline for this coming year in addition to what Matt mentioned will likely include another project in Atlanta; South Florida, perhaps Orlando, if leasing happens, we'll take leasing; Pennsylvania, Lehigh Valley, we've got a project that is likely to — it's not on our balance sheet, but we're going through what we think are final stages of approvals and entitlements; maybe some leasing — we've got several great sites in Seattle, both in the Northern Kent Valley as well as further down; and also a building or two beyond that in Northern California — smaller; and we've got a 750,000 foot building underway in the Central Valley; we've got a couple of infill sites in Northern California that we are working on that we hope will be successful, and so you'll see activity there more likely in the 100,000 to 300,000 foot range rather than the 750 we've got going. I'm probably — oh, we have one, maybe two, build-to-suits we are likely and hopeful of pursuing in Houston, a market you haven't seen from us for a couple years, but we're seeing — in both cases, actually, it's expansion related, existing tenants, and, in fact, the lease I mentioned in Houston, they renewed in their current buildings and they are now — we're likely to do a build-to-suit with them for a third building as part of the same complex, so it's nice to see expansion, and the same with the other build-to-suit in Houston, we're working on the earlier stages on both the land as well as the deal, but, then again, that's driven by expansion which is nice to see.

Craig Mailman
Great. Thanks, guys.

Operator
Our next question comes from Rob Simone of Evercore. Please go ahead.

Rob Simone
Hey, guys, morning. A competitor of yours came out and gave basically, talked about Houston in a very different light from what you've presented. Are you guys seeing any tenants in your stabilized portfolio maybe push out their leasing decisions or talk about potentially terminating or not renewing?

Matt Murphy
Yeah, I think — what I can say is I think our team did a really good job of getting out ahead of expirations, so we didn't really have a whole lot of exposure to last year or this year, and, as Phil mentioned, in the 400,000 we have expiring this year, we just buttoned up a little over 300,000 of it. So I think our opportunities, to answer that question, is perhaps smaller, but what I can tell you is we're 97.5 percent occupied as of 12/31, and so some tenants are making decisions, I think. So the only way I can answer that is not in my own experience in terms of what I've discussed with our Houston team.

Phil Hawkins
And also, I'd back up and say Houston as an overall market is in good shape, far better than you might imagine or maybe all of us would have imagined three or four years ago, and our portfolio, we sold quite — $100 million roughly over the last couple of years of higher-finish product that is more exposed to the upstream oil and gas exploration production, and we also have a greater exposure to the southeast as well as the northwest submarkets, which have less supply and better demand characteristics. The north is doing fine, it's just been a little bit oversupplied.

The thing about Houston, I'm encouraged by the fact that under-construction has come down by half and net absorption has picked up and maybe some of the best supply-and-demand dynamics we have in the country. Now, I'm not trying to hype it up, but it just — on paper, I look at Houston and I am very thankful that the market has been disciplined, and I think it's a great example of how the new world order works with institutional capital and equity capital and also the fact that Houston, like other markets, is seeing strong demand characteristics from consumption. Amazon has now entered into Houston. I was down there on a panel for NAIOP in October, I think it was, and the question was — one of the questions that people in the audience would ask themselves as well as the panel was, "Why hasn't Amazon come here?" And there's been a number of reasons, but now they've made an entry, and so e-commerce is becoming, I think, more of a factor. I'm not here to tell you that Houston's the best market in the world, but, boy, it's far better than I might have feared three or four years ago.

Rob Simone
That's really helpful, and then just one quick follow-up. Since Houston feels pretty good, I was just wondering if any of your budgeted occupancy declines this year is emanating from a market or two that you might be concerned about versus just creating vacancy to maximize price.

Matt Murphy
Well, I don't think occupancy or any vacancy is emanating from markets we have concerns about. I think probably the most move-outs we will have in 2017 as a market will be in Chicago. We've got two 250,000 spaces that are expiring, one in the first quarter and one in the second quarter that we've known for a long period of time are going to move out. That's not an indictment of Chicago. In fact, I think in both cases, they're moving on to bigger facilities that we couldn't accommodate. So, no, I don't really think of us as having sub-markets or buildings that have challenges. You have expirations that happen and the tenants either — there are some that are downsizing, but the majority of people that are moving out are moving out because they're moving to bigger facilities.

Rob Simone
Great. Thanks, guys.

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

Jamie Feldman
Thanks. Good morning, guys. So you gave a pretty positive outlook on '17, and certainly you're off to a great start with leasing, a lot swirling out there on the global trade stage and policy risk. Just can you talk us through how you thought about giving guidance, and what kind of conservatism you build into guidance and how you kind of bake into those global risks and trade risks to giving an outlook and just thinking about your business for the next year?

Phil Hawkins
Well, as you can imagine, we just had a Board meeting earlier this week, and this was a key topic as well as at our October planning meeting, even. There certainly always is, and certainly currently is, uncertainty and unpredictability with respect to a lot that's going on in Washington, D.C., and in other major capitals across the globe. It just seems to me, though, and I'm going to give you an example in a second, it seems to me, though, that the expansionist pro-growth instincts of the Administration as well as both branches of Congress will be a net positive for our business. The better the economy does, the better the consumer feels, the better job growth is, the more products will be needed, and they'll go through a warehouse, and hopefully they'll go through one of our warehouses. And to the extent trade policy and taxation policy shifts some production back onshore from offshore, that also will create net demand for warehouse space,

because every time you build another car here or whatever you're building, that needs a warehouse or more than one warehouse for components to go through.

And in our Board, we've got people from a variety of different industries, which is great. Their stance is consistent with that. And let me give you an example that a tenant and I talked about in Atlanta is a — and I can't use their name, but they're a global, very well-known company focused on consumer electronics and household appliances, headquartered outside the U.S., and if not all of their production, maybe most of it, assuming a lot of it is offshore. Their process, as far as we know, to find space in Atlanta started after the election and then finished in the month of January, quickly, decisively, and showing no flinching whatsoever about what's the turmoil that's surrounding all of us. I think their belief is if you've got a good economy, consumers are going to be buying in Atlanta, and they'd better serve that consumer base if they want to continue to maintain or grow their market share. And so that's just one example, but it was crystal clear to me that at least there's one out there, one company that is just business as usual. We've got a good economy, we've got good demand, and they need to serve it.

Jamie Feldman
Okay. And then when you think about — how much visibility do you think you have in the back half of the year in terms of leasing pipeline? It sounds like development starts, you've got a pretty good sense of what you could get done.

Phil Hawkins
I wish we had a crystal ball that gave us great visibility on the second half of the year. Honestly, what we expect to happen in the second half of the year is where the risk and the opportunity is, and the last couple of years, it's gone far better at better rents, where everything we see from the economic numbers — I mentioned manufacturing, but there's a lot of positive going on, in the job report today. I think there's a lot of reasons to be hopeful despite — and, believe me, we're mindful of the uncertainty and what that could do. We can adjust our starts in the second half of the year to reflect what may happen in the market, good or bad, but the other good thing about our year of good or bad, actually, we don't have as much rolling over this year as we typically do in our operating portfolio. In some ways, I wish we had more, but it is what it is, and let's keep — we've issued guidance, we've issued guidance that we believe in, we've issued guidance and a plan where I think there's opportunity to outperform. Development leasing would be one area, certainly market rents would be another, but there's a range there for a reason, and there's certainly the possibility of disappointment. And we issue guidance at the midpoint that we think is a realistic outlook based on the way we see the world and think the world's going to unfold. Hopefully, we'll be right or conservative in hindsight, assuming that's not our intent, and we'll do everything we can to adjust rapidly our business plan as the real world unfolds in front of us.

Jamie Feldman
All right. Great. Appreciate hearing your thoughts. Thank you.

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

John Guinee
Great. Thank you. Could you do us a favor, Phil, and move up your reporting so that you're the first industrial REIT to report and save us a lot of angst?

Phil Hawkins
No. I'd like to get it out of the way sooner. I could start my vacation, but, no, Matt — we do have to get the numbers done right.

John Guinee
I'm looking at your G&A. You guys are not allowed to take vacations, come on. A quick minor question. It looks like your opex, operating expenses and taxes as a percent of GAAP income are going down. Both the last couple quarters seem to be historically low. Is that something we should expect, Matt, in the future, or did you have a relatively low opex cost in the third quarter and the fourth quarter?

Matt Murphy
Yeah, I don't think of us as being — there's nothing unusual in terms of seasonality or things like that that I can think of. I think what's happening is revenues are growing faster than expenses, and therefore you're seeing that relationship change. I don't think — there's nothing that comes to mind. I've made this comment a few times internally, is it seemed like there was less — year end always has the opportunity for volatility as you're truing up CAM, as you're truing up accruals. It felt like the fourth quarter this year was about as smooth as it gets, so I can't think of anything that seems relevant to your question, because it seemed like it was all pretty straightforward.

John Guinee
Well, nothing's ever relevant to my question, but thank you for making it relevant. Hey, the next The last question, if you're looking at the landscape and the yield on expected development returns for, say, big box logistics buildings versus smaller light industrial or regional distribution, is there any significant difference, Phil?

Phil Hawkins
I would say it's more market-based than it is product-based, and, by that, I mean in some markets, it's been buzzing. Southern California is so competitive that everything is priced well. In other markets, for example Atlanta, where the smaller boxes have just started making sense from a rent perspective, rents have just gotten there. I think it's not the yield that I like about the small- and medium-size box trade, it's actually the relatively lack of supply or less supply in that area versus big box, which, as you know, institutions love big box. They get a lot of money out, it's sexy, and it's a 100,000 foot building, 200,000 foot building, it takes more work. It takes as much work to build a 100,000 foot building as a million foot building. And so I more like the competitive dynamics. I'm not sure there's a difference in yield. I haven't thought about it that way, so I could be wrong a little bit, but, like I say, I think it's more about competitive dynamics and risk return rather than absolute return differences.

John Guinee
Great. Thank you. Have a good vacation.

Matt Murphy
Thanks, John.

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

Manny Korchman
Hey, guys, good morning. Matt or Phil, you discussed in your opening comments that you'd dealt with three-quarters of known leasing use and no downtime. What types of industries were coming out, and what types of industries were going in?

Phil Hawkins
Well, Houston was a renewal, and in the case of Atlanta, it was a consumer going out. I can say it was Smuckers, which we expanded them into a new building, and the new company, which is consumer, although consumables, versus the new company coming in is more durables — consumer electronics, appliances, that kind of stuff, but both consumption-based. And so, like I said, in terms of fourth quarter leasing or anything going on, Matt, that you're seeing shifting?

Matt Murphy
No, it's not surprising that the number one source — I mean, the industry that was number one in leasing in the fourth quarter was manufacturing, which has been — probably six of the last eight quarters has been true — or manufacturing related. That's what they identify themselves as by SIC code. So, no, I haven't — no, I can't think of anything where you're seeing one thing picking up and/or another thing tailing off.

Phil Hawkins
I can tell you one prospect we have for a redeveloped building in the Midwest is a 3PL that serves the auto plants of one of the major auto manufacturers. They're expanding, and they're moving out of a building, because of that need for expansion, into ours, and so manufacturing, home building, and not manufacturing in our buildings, but every time you build something, you need parts, components that go through a warehouse, and the manufacturing supply chains are just as complex if not more so than the consumer e-commerce and traditional supply chains, and they are spending as much money and time on expansion as well as refinement of their supply chains as the consumer side. All that's good, frankly, for us.

Manny Korchman
Great. Matt, can you talk about the average rental bumps across the portfolio and also on new leasing, especially if there's any difference between those two numbers?

Matt Murphy
Yeah, like I mentioned in my opening comments, they continue to get better and better. I've always thought it's funny how the benchmark's gone from maybe 2 percent a couple years ago, a few years ago at 2.5 being the sign of a good one. Our average bump in 2017, the ones that are contractually established already, is 3.1 percent. So they don't go — it's not like it goes from 2.5 to 3.5 to 5.5, and I always thought about this in terms of layers, that the layers, you're losing a layer of leases for those that expire and gaining a layer for those that you renew or create, and each layer just continues to get better.

The overall percentage of leases that have bumps hovers right around 92, 93, and this is for anything over one year, obviously, so it's not like the frequencies of bumps are getting better, but the amplitude of them certainly is. And, for instance, one of the things that's driving same-store growth is we have basically $5.8 million worth of bumps that are already embedded in our '17 pool over '16. That's over a million dollars better than it was in 2016, the increase over '15. So it is being built up by small increments, but it just keeps getting more powerful as they add up.

Manny Korchman
Great. And then my last one on same-store, on that same thought. How do we think about the amount of free rent burning off that's driving your 2017 same-store number upwards?

Matt Murphy
Yeah, I think, and we talked about it throughout '16, and it's now manifesting itself as a comparison to '17, there was clearly a lot of free rent in our numbers in '16. I think it's a tool that is used effectively by our leasing teams, where you're seeing maybe some companies that are willing to give you $1.25 tomorrow for $1.00 today that, to me, as a finance person, wouldn't make sense. The raw numbers are we had about $11.7 million worth of free rent in our same-store pool in 2016. What we know of in 2017 is a little over $2 million. Now, I say it that way because we will have free rent associated with new leases that are moving in in '17, so it goes up from there, but if you just look at the comparison of what we know was in '16 versus what we know is in '17, that $9 million-plus number is almost 400 basis points of same-store growth. Our total same-store NOI in cash NOI in 2016 was about $250 million, so there's a lot of visibility into that, a lot of that's baked, if you will, and then there's obviously the variable part of it is how much of it will happen next year, and I have an assumption built into guidance, but I'm guessing.

Phil Hakwins
Next year being this —

Matt Murphy
I'm sorry, '17 — changing, turning the page today. I'm still in '16. So hopefully that's helpful.

Manny Korchman
Great. Thanks, guys.

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

Eric Frankel
Thank you. The first question is detailed. Can you explain the — in your development pipeline, it looks like a few of your projects you've delayed a quarter or two. Is there an overarching reason for that trend?

Matt Murphy
Are you talking about completion, starts —

Eric Frankel
Completion, yeah, completions.

Matt Murphy
No, I can't think of an overarching theme. I know we had one of the ones that was going in Chicago that had some sort of regulatory issues that took us that took us the central one that —

Phil Hawkins
FedEx.

Matt Murphy
FedEx, yeah, sorry, the FedEx deal. I can't think of any overarching ones. Construction, we typically are going to budget eight months, nine months, and that almost happens that way. Getting fully underway takes longer. I can't think of a single answer to that.

Phil Hawkins
Just to summarize that up, Eric. The two that I'm familiar with are site related — site-work related. I think you know — if you're familiar with the FedEx location, there was a lot on that site, and it, frankly, just took us a little bit longer to clear it and get through all the obstacles that weren't necessarily on any drawings. Drawings didn't exist. So that delayed it, and, similarly, another project I'm thinking about, same thing, is that demolition work took us a little longer. When you're getting into the redevelopment of sites, building new buildings or redeveloping buildings, it's a little bit different than building on a cornfield, and that's — we go in there with our eyes as wide open as possible, but sometimes you find things that we didn't encounter. Thankfully, it costs us some time, but, frankly, not a lot of money, and yields on those things were so strong that it — frankly, we had plenty of room anyway. But those are the two that I can think of.

Eric Frankel
Okay, thanks. One more detail question, and I'll call back in the queue for a broader question, but related to tenant improvement allowances and leasing costs, it looks like your leasing costs are somewhat elevated for fourth quarter leasing. Is there a particular reason for that? Any — I'm not sure — you talked about you had a lot more manufacture-related leasing. Is there any sort of equipment financing that's embedded in that?

Matt Murphy
So — I'm sorry, I'm pausing for a minute to look through — I'm trying to think of any specific examples that drive that, and I can't. I don't know, Eric. I apologize. I'll have to get back to you. I can't think of a single one that's driving it. You're right, it is relatively high.

Phil Hawkins
But just to be clear, I'm not sure we put any manufacturing operations in our buildings.

Matt Murphy
That's true.

Phil Hawkins:
And we certainly aren't expecting to finance manufacturing equipment if they did. You certainly would build out office space, new lighting if it's an older building, whatever it is, but we're not going to be typically in the business of manufacturing equipment leasing or financing.

Eric Frankel
Right. Right. I'll call back in the queue. I'll go back to the queue. Thank you.

Operator
Our next question comes from Blaine Heck of Wells Fargo. Please go ahead.

Blaine Heck
Thanks. Good morning, guys. So, Phil, at this point in the cycle, given the rise we've seen in rents, is there any desire to start pushing for longer lease terms to lock in the relatively high rents we're seeing out there, or is that not something that's a priority when you guys are leasing space?

Phil Hawkins
Well, I'd say there's certainly less reluctance to enter long-term leases, but tenants have pretty clear views of their requirements coming in, and that includes length of term based on their business. It could be a 3PL with an underlying contract between a match-up, or it could be a direct consumer company that has its own needs and/or budget constraints. We have probably less control over length of term than any other variable in the process, and I'd rather not push one way or the other against something that's clearly important and well thought through by a tenant and instead push on what they can be accommodated of or — and that would be economics. As soon as you start pushing on term, you may either lose the deal or you may end up putting them in a position that they're maybe less accommodating or less able to handle the economic proposal. But every deal — that's why we have people on the ground, and it's a local business and a business that is run by our market leaders and their teams. You want to get to know the customer as best as you can and figure out a package that works for them as well as possible so we can then have a package that works even better for us.

Blaine Heck
Okay, that makes sense. And then maybe another one for you or Neil, I'm not sure if he's on the line, but can you just talk about the Chicago acquisition? I know it's small, but it looked like a stabilized 4.3 percent yield, which seems low for you guys. Is there any sort of value-add play there, or what made that purchase attractive to you guys?

Phil Hawkins
Two things — love — and Neil's not on the call — Neil and Todd Vezza who runs the market for us, love that location — close in, that last mile or last half-mile kind of location, but the in-place leases which are substantially below market, 30 or 40 percent below market, is what creates the low yield price per foot, and discounted replacement costs we like a lot. It's going to take us a couple of years to get at it, but it's an example of how we're wiling to invest in great real estate with future potential but not necessarily needing to have a current return. We've got a portfolio that's quite diverse in terms of returns, and we really want to think about the right real estate with good growth prospects long term and not just think about this year or this quarter, so we love that building a lot.

Blaine Heck
Makes sense. Thanks, guys.

Operator
Our next question comes from Michael Mueller of J.P. Morgan. Please go ahead.

Michael Mueller
Hi. Just a quick question following up on a lease term discussion. So it looks like in 2016, the average duration of a lease is something like five years. If you're looking at the development pipeline, how does it differ there? Are they predominantly ten-year leases, or is it something a little bit shorter than that?

Matt Murphy
Yeah, so development is about 6.5 years. This is all year-to-date status. It's 77 months versus an overall average of 60, so that doesn't surprise me a bit. You're typically going to see tenants — some of it has to do with they've been a little bit bigger boxes over time, and, as a result, you're frequently seeing those guys put in more of their own cost into the building, and they also have a longer transition time. It's just a bigger investment. Those guys tend to go longer.

Phil Hawkins
And generally speaking, new leases are longer than renewals. There's exceptions to both, and so you obviously have no renewals in the developed pipeline, and 78 percent of our leases, roughly, renewed last year. So that's also going to push down on it. I think that our operating portfolio average term is up almost a full year from the — from four or five years ago, where you did a lot of renewals, and it was in the 40s, the low 40 percent — 40 months, if I remember right, which doesn't surprise me either, as you're dong more new deals, tenants are more confident and spending more money on space. They're going to want longer terms.

Michael Mueller
Got it. Okay. That's helpful. Thank you.

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

Tom Lesnick
I'm sorry, I was on mute there. Hey, guys. Good morning. First off, you mentioned good leasing activity in Atlanta and Houston. Looking out to 2017, are there any specific markets that perhaps carry a little bit more of the bulk of the share of leasing?

Matt Murphy
Well, I think — so we have basically 20 expirations that are a 1,000 square feet or greater —or, excuse me, 100,000 square feet or greater during the year. Five of those we know are — five of the top ten we know are moving out. Three of those have been backfilled. We have five spaces that are greater than 100,000 square feet that are vacant today, one that's greater than 200,000 — that's a 400,000 footer we have in Atlanta. Clearly, from an operating portfolio perspective, that's our biggest bet that we're making during the year.

Beyond that, it's reasonably well distributed. We have 10 percent of our square feet rolling from a square footage perspective. It's only 8 percent from a revenue perspective. I can't think of why that will be terribly different from a renewal retention than we've had historically. So, no, I don't see a lot of concentration. The one thing to make sure that it's tied together, we do have pretty significant move-outs in Chicago, and, as a result of that, we know we've got a lot of leasing to do in Chicago. Market's in pretty good shape, and we have good activity, but that's clearly where our biggest bet is for the year.

Tom Lesnick
Got it, and that's very helpful. And then just a bigger picture question. If you had to rank some of your larger markets by farthest along in the cycle to not as far along in the cycle, how would you go across some of your larger markets?

Phil Hawkins
I think the larger markets, with a few exceptions, are all in about the same spot. There's plenty of capital that is able to fund, on an equity basis, development. Supply is disciplined but active. Demand is healthy across all the markets that I see, and, as a result, with supply and demand roughly in balance, maybe supply a little light of demand, low vacancy rates, you're getting rent growth in the — I think '17 rent growth is going to be good. I was wrong last year. I said 4 to 6 percent, and I was dead wrong. Thankfully, I was low. I think we're going to be at 3 to 5, 4 to 6 percent again this year, because when you've got that much vacant — that little vacancy, combined with the fact that new construction, providing the new supply that the market needs is costing more and more every day. Land costs, construction costs, entitlement costs, that's going

up 5 or 6 percent a year, at least, in some markets more. That's lifting the ceiling for all the other buildings. I think we're going to be at a pretty healthy rent growth environment.

Tim Lesnick
All right. Appreciate the color. Thanks again.

Operator
Our next question comes from Mitch Germain of JMP. Please go ahead.

Mitch Germain
Thanks. Matt, I think you said about 40 percent of the leases rolling signed at the low point of the cycle, a similar amount, I think you said, from last year. Does it burn off and now we're just going to tick up a year as we move forward, or do you have some of that drafting into 2018 as well?

Matt Murphy
Yeah, it drops out at like 12 percent in '18, so, yes, when you think about average lease terms, that makes sense. The good news is there's been a lot of good years of rent growth between then and now, so it's not like that's the end of the party, but that's effectively the end of what I consider trough leased. The comparison's against trough leasing.

Mitch Germain
Great. Thank you. That's it.

Operator
Our next question comes from Rich Anderson of Mizuho Securities. Please go ahead.

Rich Anderson
Thanks. Good morning. So speaking of the trough leasing, I'm curious to what degree the type of cash releasing spread that you're getting is influencing your jazzed-up approach to development, and not that it's a false positive, but it's not sustainable either. So what do you think the sustainable lease roll number is once we get through all this height-of-recession type of releasing activity?

Phil Hawkins
I'm not sure I understand the connection to development. I'll speak on development and hope I —

Rich Anderson
Well, because maybe you're — that was a little subliminal message on my part, that I worried a little bit about the aggressive approach to development and making sure that we're not taking too much out of the leasing activity that isn't going to be in this level for very long.

Phil Hawkins
Well, I heard rents and I heard leasing activity and I heard development. Let me just tell you what I think of the market.

Rich Anderson
Okay.

Phil Hakwins
— and how we think about development — we are not underwriting rent spikes, if that's what you're getting to justify new development —

Rich Anderson
Yeah, that's exactly it.

Phil Hawkins
— for one. Number two, I believe demand will continue to be broad and deep across markets, industry verticals, and sizes. That's why we're developing. We have low vacancy rates in the market, we have good, healthy demand. If you have a different view, you have a different view of development. We don't share that view, but I don't believe — I think the focus on development and the focus on our business really is not as much supply as it is demand, and in my view, and I've been wrong many times in my life, but from what we see and what we hear from our people on the ground, we are continuing to see tenants be decisive, need more space, need more modern facilities. That, combined with low vacancy rates, translates into what we think is an opportunity. Now, we're not going all in. We've said before, I'll remind everybody, we are not — we do not want more than 10 percent — in fact, we've never been close to that — of our assets at risk in development. But we do believe it's a bet worth making in a modest, disciplined way, and that's what we're laying out for 2017.

Rich Anderson
Okay. Fair enough. And then, Matt, can you give some of the building blocks? One thing not in your guidance, at least I didn't see it was how interest expense will ramp in context with the development activity. Can you provide that one way or the other or maybe offline?

Matt Murphy
Yeah, well, I'd be happy to do it online. Again, I don't look at that from a macro economic perspective. I look at how much floating rate debt we have and what do I think interest rates will be for that, and I'm probably not being that crazy in that I'm assuming a couple of 25 basis point bumps during the year for LIBOR. And then, as I mentioned, we're contemplating a couple different discrete financing transactions that I'm basing off where market is today. It's likely that one will happen earlier in the year, and I'm basing that off of where I think the pricing of that will be today, and I've built in a little bit of an increase in overall rates for the one that happens late in the year, but, again, I don't look at this from the world down. I look at it from our debt portfolio forward, and those are the assumptions I made around it.

Rich Anderson
Right, but how much more interest — I hate to be so trivial, but how much bigger can it be '17 versus '16 when you consider all that?

Matt Murphy
What does "bigger" mean?

Rich Anderson
Interest expense.

Matt Murphy
Well, again, so you've got to — I'm not going to give you a specific number on interest expense. What I've said is that we are planning to — we're giving ranges on deployment, I've told you the way I think about where credit metrics will be, and so there will be incremental debt that's added

as a result of our deployment activity. There will not be incremental leverage that's added. The combination of — in a short term, incremental debt will happen on the line. On a longer term, it will be taken out with the long-term financing that I've described, and you have to make assumptions about timing and magnitude, and there's ranges in every single element that I've just given you. All of those ranges will impact what interest expense is.

Rich Anderson
Fair enough. Thanks very much. Appreciate it.

Phil Hawkins
Thanks, Rich.

Operator
Our next question comes from Bill Crow of Raymond James. Please go ahead.

Bill Crow
Hey, good morning, guys. Phil, it's interesting, we've talked more about manufacturing than e-commerce in this call, and it got me thinking about if you were to divide your tenant base into the old economy and the new economy, on the fringe, is there one sector that's growing? E-commerce has been the growth driver incrementally. Is manufacturing and old-line economy tenants, are they starting to ramp back up? Are they catching up at all?

Phil Hawkins
First, almost every consumer-related tenant has got some form of e-commerce going on, or they're not going to be around much longer, and that includes, obviously, Amazon, but many others. We've had, as Matt mentioned, manufacturing-related companies who, by their self-selection of the SIC code, have been significant, but that also includes, for example, Coca-Cola, where we did a lease with them last year, mainly in the fourth quarter, that they are a manufacturing company, but you don't think of them as an old-line company. I think of them as a consumer company, but they think of themselves as they produce syrup, I guess.

I think what's going on in our business and why our business is doing so well and why I believe it will continue to do well is we have both traditional customers, traditional businesses, both consumer and manufacturing, that are doing far better today than they were in 2009, and they're spending more money today on efficiency as well as speed and quality of distribution, combined, then, though, with the advent of e-commerce, which has been pretty well documented as a less efficient use of space. You need more square footage for that business, because a lot's going on in our buildings, generically speaking, that has resulted in disproportionate growth in our business relative to GDP growth. So I think it's both. If it was just e-commerce, my guess would be we'd be doing pretty well, but, if not, it's e-commerce combined, then, with traditional customers across the spectrum that continue to also feel good, do well, and make decisions.

Bill Crow
Am I wrong in thinking that if this movement out of D.C. to relocate manufacturing into the United States is successful, you'd think supply chain, et cetera, there would be an increase in demand? It may be too early to see that. Is that a fair way to think about it?

Phil Hawkins
I don't know if it's fair, but it's the way I think about it. I know there's some angst amongst investors and analysts about trade policy and how that's going to have a disproportionate impact on distribution space. I see it as having a net positive impact if you can assume that a trade policy

and trade taxation doesn't tank the economy. Obviously, if it's counterproductive, all bets are off for everybody, all sectors, not just us, and maybe we have a little less exposure, who knows, because of e-commerce. But, to me, if you believe that the overall economy will be doing better under — for whatever reason, I'm not trying to have a political position here, but if you believe that that is happening and you believe that will happen at the same time you shift production onshore, that's got to have a net positive impact on our business.

Bill Crow
Yeah. All right. Thanks. Appreciate it.

Operator
Our next question comes from Anthony Hau of SunTrust. Please go ahead.

Ki Bin Kim
Thanks, good morning. It's actually Ki Bin. Just a couple of quick ones. Can you talk a little bit about your approach to buying land as a comparison maybe to some of your peers? I've noticed your yields have been pretty healthy, maybe a little bit above peers, so if maybe you could just give insight into how you're buying land, and is it more of a function of markets, or is it some other issues?

Phil Hawkins
Let me just talk about DCT, and I don't know our peers as well as I know us, so we believe very strongly and are willing to invest time and capital into pursuing land and solving problems associated with that land that perhaps other investors have a shorter timeframe or less expertise or less patience to have. Infill focus; willing to assemble land; willing to take on environmental issues, solve them with the seller; willing to take on entitlement issues, zoning issues, solve them; wetlands issues, I'd say the vast majority of the land we buy is not developed or assembled by somebody else and then flipped in a retail fashion but something that we invest our time and money into creating value through the land process. I think that you end up with better returns and better location.

It takes longer. As I've said it before, there's risks. The pursuit costs that we're spending, thankfully, we've been pretty fortunate, but that is the cost of doing business the way we do it, and I think it was $700,000 this year that we wrote this year, meaning '16 — I'm back in Matt's trap. So we are going to invest in the land process and add value through land. Frankly, it's not that hard to build a building once you get the land ready, and I actually had mentioned in response to one other question, when you're tearing down buildings, things can go wrong. Once you get the pad clear, it's pretty unusual unless it rains. And we had rain in Dallas, for example, it was raining like crazy, and that pushed us back a month or two, but besides weather, it's pretty hard to mess things up. The real value is in the land.

Ki Bin Kim
And with that said, your land bank doesn't look that high. Does that change the yield profile going forward as you buy, I would call it more market cost rent?

Phil Hawkins
Well, I think cost of land is going up, no doubt about it and our yields have come down a little bit. We, thankfully, outperformed, but if the question is land — are yields in development coming down, the answer is yes, but I think that we'll continue to pursue — our belief is that buying large tracts of land and holding them for multiple years is not the best way to make money in our business. Others are better at it. That's not the only way to make money. Our way is avoid land

banking, focus on infill locations, invest in some cases two years in the process. It's off our balance sheet, we're not going to close on a piece of land until we're confident we can build on it, but we're going to invest the capital and the time over a one- or two-year period to do it. And we ought to get paid for that, right? You've got to get paid. It's risky, it's complicated, it takes time. We're not trying to work for free, that's for sure.

Matt Murphy
The only other thing I might add to that is it's inherent in that answer, but it's maybe not obvious, is that because some of these things are taking longer and we're solving problems over periods of time, we've agreed on the land price a long time ago, and I think that ultimately ends up enhancing our yields.

Ki Bin Kim
Yeah, that's actually a good point. And just a larger-picture question. If we think about how e-commerce has contributed to industrial demand over the past few years, and a lot of it's been square footage take-up, right, absorption, is there a small bit of risk that square footage absorption turns into what I call more cubic feet absorption, where it's just buildings get taller, and I'm not sure how much more rent you get for that, if at all, but is there a risk that as buildings get taller, maybe the economic flow into industrial REITs or industrial landlords maybe gets mitigated a little bit?

Phil Hawkins
I think that's a miniscule risk. If you think about the total demand and the total size of the market, the vast majority of 36-foot clear buildings, for example, today aren't used by the customers as 36-foot clear. Amazon has clearly shown, and a few others have shown, the desire to use a 40 or now 44-foot cube, but they're not using it as a cube, they're using it as basically a multi-story sorting center and fulfillment center. They're building mezzanine space. There's plenty of demand out there, and, by the way, that does raise rent. You're not going to build a 44-foot clear building and charge the same rent as if you built it as 28 foot clear or 24 foot clear or 36 foot clear. You are going to get higher rent if the market's rational. But there's no doubt that as rents go up, customers will continue to think about how do I use this more efficiently? That's counteracted by the fact that e-commerce is taking over more market share, and that's inherently less efficient. The 3:1 ratio is used by a lot of different companies now, both developers as well as even e-commerce companies. You've got more things going on, more people in that building, more value being added. As a result, the density of that site's a lot less. Density's down from probably 50 percent ten years ago to 30 or 35 percent today. More car parking, more trailer parking, all those things go in different directions, but overall I think that the demand outlook for e-commerce and others that might use that cube is so strong that I'll take that tradeoff.

Ki Bin Kim
Okay. Thank you, guys.

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

Eric Frankel
Thank you. Just a couple of quick follow-ups. Amazon recently announced that they are opening a much more extensive air hub operation in Cincinnati. Do you have any sense of how that's going to impact their warehouse network over time, whether maybe that actually might take away some of the demand from the really big population centers and make their distribution network a little more centrally located and maybe closer to airports?

Phil Hawkins
I don't have a clear sense. I don't believe, though, that you can afford, whether you own the airplane or lease it yourself or you do it through FedEx and UPS, that you can afford to fulfill e-commerce orders across the country by air. I think what you actually want to do is reduce reliance on FedEx and UPS and vice versa. As we saw in UPS' earnings release, my sense is it's not driven by changing the pattern of fulfillment and distribution but more trying to control their own destiny on that one leg of it. But as I understand e-commerce, they are trying to fulfill more and more through ground, which is far cheaper and more efficient than air.

Eric Frankel
Okay, and then, finally, any markets where you're seeing any sort of supply issues? I know overall you've stated that the market's relatively disciplined, but any markets where you think supply might be getting a little bit ahead of demand?

Phil Hawkins
What we look at is 12 months of absorption, trailing 12 months versus the unleased — the vacant portion of the supply, and everything is under 100 percent of that, meaning under — I've said this in other calls, you've got to look at the markets where there's a lot of demand and a lot of supply, and Dallas is on that list, for sure, because that's leveraged. The supply, at least in the short run, isn't going to contract quickly, but demand can go away overnight, so we spend a lot of time thinking about sub-markets there, we think about building size and not trying to be where everybody else is due to the size, and then you make sure you limit your exposure, because it could change on a dime, but the indications so far are that demand there, as well as other key large markets, Inland Empire is an example, all are healthy from a demand perspective.

Eric Frankel
Okay, that's it for me. Thank you.

Operator
Our next question is a follow-up from Manny Korchman of Citi. Please go ahead.

Michael Billerman
Hey, it's Michael Billerman. I'm just curious whether — you talked about how you haven't seen a lot of move on the tenant front yet post election and post sort of what the Administration wants to do. It seems to me that the investment market tends to move first, and so I'm just curious whether you've seen any either developers or private equity capital sort of target the middle of the country or vice versa, potentially maybe sell at attractive cap rates on the coasts or the ports and whether there's any noticeable shift on the investment side of the market coming out of the election.

Phil Hawkins
Haven't seen it. You're right, it is too early, although it's likely to go faster than perhaps tenants move. I think that there's still — the investment market is still very strong, very few deals got re-traded or even attempted to re-trade in the fourth quarter across the country. Very little is on the market of quality Class A type buildings. When they do come on the market, regardless of which market they're in, they have traded very well, so I think it's too early, Michael. I think that you still have the advantage of the coastal markets, where you've got — that's where the population is, so you're still serving a consumer base, and it's also where the greatest barriers to new supply are, which may delay or eliminate any reaction to any change in demand that may be happening, depending on what you think might happen out of Washington. But, anyway, too early.

Michael Billerman
How many new players are you seeing either on the development side or on the investment side coming into the industrial marketplace?

Phil Hawkins
From an investment side, there's been some money in the build-to-suit world. I'm thinking Chinese capital. I certainly saw GLP come here, and they've remained active, and I don't think that's new anymore. It remains in large part, traditional pension fund capital, either through advisors or through well-known fund operators whose primary source of capital is pension fund, Cabot and the likes of Exeter and companies like that. Bud in terms of developers, what are you seeing in terms of any new entrants in your markets?

Bud Pharris
Yeah, so I've seen in the West — a number of kind of our peer group, some of our bigger competitors have decided to enter or are looking at setting up more of an office instead of flying in from a central headquarter location. So we are seeing a little bit of that. I don't see a ton of traction, frankly, but there has been some of that activity.

Michael Billerman
And how aggressive are the private equity players being right now in chasing industrial relative to other core property types which are probably seeing more of a deceleration and less attractive sort of investment opportunity? I'm just curious how much capital's going to continue to flood into the space.

Phil Hawkins
Yeah, it's been too short of a timeframe. I can tell you from inbound phone calls and discussions with some of those players, from the very largest to medium and smaller, they clearly have a strong appetite or convey the sense that they have a strong appetite for industrial. We'll see where pocketbook and verbiage align, but a number of the private equity players continue to like industrial for both macro reasons and market reasons as well. There's been no sign — again, it's too early, and so a lot can change in this world of uncertainty and change, but there's been no sign with a response to increase interest rates on industrial as the reaction on pricing has been on what appears to have been, for example, the office side that I've heard about.

Michael Billerman
And just the last one, do you foresee any desire of either public or private industrial companies wanting to bulk up to increase the size of their market penetration and become larger in order to take advantage of what the opportunities are? Is there going to be a wave of further consolidation? Obviously, over the last couple of years, you've seen a lot of individual portfolios change hands, but we haven't seen the larger scale M&A activity in creating even larger companies.

Phil Hawkins
I don't know, honestly. I'd love to ask you the same question, and we could do that offline. It just seems to me, though, that in the public world, every company's got a slightly different strategy — doing well, good leadership, their own kind of portfolio. We have different quality, different types of product amongst ourselves, different market concentrations, but I can talk about DCT. I think we are in great shape with who we are to grow organically and make money. If somebody came along, private or public, that made us a better company with better returns and future value creation, we'd be open to it. On the other hand, I don't view that as a strategic priority.

Michael Billerman
Okay. All right. Thanks, Phil.

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

CONCLUSION

Phil Hawkins
Okay, long call. I appreciate everybody hanging in there with us. We had a great quarter and looking forward to what I hope will be a great 2017. Thanks for joining and talk soon. Bye.

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