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DCT - DCT Industrial Trust Inc at Bank of America Merrill Lynch Global Real Estate Conference

EVENT DATE/TIME: SEPTEMBER 13, 2016 / 3:05PM GMT

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CONFERENCE CALL PARTICIPANTS

Jamie Feldman *Bank of America Merrill Lynch - Analyst*

PRESENTATION

Jamie Feldman - *Bank of America Merrill Lynch - Analyst*

Thank you for joining us. My name is Jamie Feldman. I am the senior office and industrial REIT analyst with Bank of America Merrill Lynch. I think I just saw Josh Dennerlein in the room, who works with me on the industrial stocks as well.

We are here with Phil Hawkins and Mike Ruen from DCT. And I think the spirit is, maybe you'll give a 10-minute -- up to 10-minute overview of the Company.

We want this to be as collaborative as possible, so please feel free to ask questions. But once Phil and Mike finish their comments, I'll walk through some questions on the Company. But hopefully, we'll make this more of a roundtable.

Phil Hawkins - *DCT Industrial Trust - CEO and President*

Awesome. And a number of familiar faces, some of who I just met with, it seems like.

I'm going to keep it brief. I don't think I can talk for 10 minutes. And if you've got questions, either more basic about what the Company does or more details, please hammer away.

I think I would talk about two things. One is the market environment, and then, second, the Company update. The market environment is easy.

Jamie Feldman - *Bank of America Merrill Lynch - Analyst*

Perhaps we could just -- maybe just give a big picture for people who have never heard of DCT before. We do have, you know, not just REIT investors in the room.

Phil Hawkins - *DCT Industrial Trust - CEO and President*

Right. And we do have it on the Web. So DCT industrial, we are -- by the name we are focused on owning warehouse real state, distribution real state throughout the United States.

It's a US-only focus, and it is primarily almost entirely ownership. We don't have joint ventures or funds. We are in the business of owning real estate, owning NOI, if you will. And focused on owning, operating, acquiring. And then, more recently and very currently, very actively developing new real estate in an environment that has never been better.

We are in an environment that I just keep knocking on wood every day because it is just a -- it's a privilege to be able to be in this business right now in the environment we're in. Demand is very healthy across all size ranges, all markets, all user types, clearly enhanced by -- and a topic we cover quite a bit -- by e-commerce. But e-commerce is the icing on the cake of what is already a great business to be in.

And supply is also well in check. And people keep scratching their head. And many of you have been following industrial for at least part of your time for a while, and you wonder why hasn't supply overreacted like it always does. And in my mind it's a number of different reasons.

First, the financing environment is very different post downturn. Some of you are with banks, and they -- it's very difficult, if not impossible, to get a nonrecourse loan, construction loan on a speculative building. If you have got a tenant, a credit tenant, it's easy.

So as a result, it's all financed through equity, whether it be balance sheet of the development like DCT, or a pension fund that might invest through a forward commit structure or a joint venture structure with a merchant builder developer or with a regional developer.

But it's very difficult to get financing. It's very difficult to get approvals, even in markets -- Mike -- by the way, Mike Ruen is with us who runs the East region based in Atlanta. Even in Atlanta and Dallas, it's not straightforward, not quick to get approvals from the municipalities. They don't want trucks.

Per square foot of value, we don't generate a lot of jobs. So it's not a product that people want in their backyard.

In the old days, that means you just went further out away from the city and to the next farm. And today, though, that's not where customers want to be. Our customers, they want to be closer -- we're basically following the migration habit patterns of residential. For many years, everybody was moving out of the city and moving further out, and that's where the warehouses then became -- they'd go further out, and now that's reversed.

So, we are in a very good environment.

From a DCT perspective, the results reflect the environment we're in. We are organized and believe very strongly in the importance of local -- running our business from a local perspective.

So we have markets -- we have 13 market offices that are fully staffed with property management, construction people, leasing, and then run by an overall leader who is responsible for building that business and running that business. And they are paid based on the performance of that business. They don't buy and then flip it to somebody else who is responsible for operating it. They need to deliver the results that they promised when they bought something.

And we've been very active developing. Our current pipeline is about $250 million. We'll probably do about that much at starts. Next year, I think, looks pretty good from a start perspective.

You know, last quarter, we looked at the yields we delivered on the -- we delivered about 100-and -- I think $120 million of stabilized assets in the second quarter.

In the value margin, if you take the current cash yield and compare it to the current cap rate for that product -- we use CB, we didn't invent the cap rates -- our margins were 50%, which is just unheard of. I think they were 40%-some in the first quarter.

So we are delivering at high yields in a very healthy environment that is at a time when investors really want our product. Cap rates are at all-time lows. There aren't many markets. You know, they are now low 5%s in most major markets. Non-coastal, they're mid 4%s; stayed at low 4%s in the coastal markets. And we are developing in the mid-6%s to mid-7%s. And, in fact, we are doing better than what we expect. And as a result, I think we delivered in the low to mid-7%s in the first couple of quarters.

Our current pipeline, I think the expected yield is, again, low 7%s yield. So we're in a great environment.

Operating-wise, occupancy continues to inch up, rents are growing, cash rents and gap rents, meaning effective rents over time, kind of mid- to high single digits on a cash basis. High single digits and mid-double digits on a gap rent basis.

I can go on and on about the environment we're in. But, like I said, I feel very fortunate to be in this business and at a Company that is focused on the US. It's the right market, and a portfolio that is very focused on infill locations.

We didn't see e-commerce coming, honestly, but what we did see was we'd rather own buildings where there's not much land around it. And so it's hard to duplicate. We think that's a better investment over time. And then the fact that e-commerce has now come our way, it's just a gift that hopefully will keep on giving.

Just one example on e-commerce -- a year ago, Amazon was not in our top 10 or top 20 list of customers. Today, they are our largest customer.

Now, it's industrial -- they're at 2%, just over 2.5%, I think it is. And I think when the rent all commences, they may go to 4%. But -- but we've got, hopefully, we'll continue to do additional business with Amazon, FedEx, UPS. We are seeing a lot of evidence of that last-mile e-commerce demand that three or four years ago we didn't see at all because they were building out their basic fulfillment platform, and now they've moved into the more core infill location.

I can keep talking. I probably did talk for 10 minutes, so I apologize.

Jamie Feldman - *Bank of America Merrill Lynch - Analyst*

Yes, no problem. Any questions off the bat on kind of the big picture of DCT? Okay.

So maybe, I guess, sticking with last-mile e-commerce. The hot question, hot topic is certainly e-commerce and how sustainable is what we're seeing in warehouse from the build-out of e-commerce.

But also, everyone is trying to solve for the last mile. So can you maybe talk about how the DCT portfolio as it stands today fits in for exactly what the kind of demand as people are trying to solve that last-mile solution?

Phil Hawkins - *DCT Industrial Trust - CEO and President*

Well, the challenge for everybody is we don't have a lot of vacancy, and the market doesn't have a lot of vacancy. So what they are trying to get is hard to achieve.

What we've seen is when vacancy does happen and/or -- we were redeveloping a building in Hayward, California, so close in East Bay. And it was a building that had great location, built in the early 1960s, 30-foot clear height, which is strong, but no truck door. No truck doors. Maybe a handful -- no parking. No truck court. Essentially a very obsolete building. And we tore a quarter of it down to create space on-site for truck courts and trailer parking and car parking.

And immediately after starting the demolition, we entered into a discussion with UPS. And before we even finished the demolition, we signed that lease with UPS. So as soon as you can build it, it's happening.

Mike, do you have any thoughts -- our portfolio itself, the vast majority of it, I would describe as infill kind of in the beltway, generically speaking, locations.

Mike Ruen - *DCT Industrial Trust - Managing Director, East Region*

I would just add that with an infill focus we also have the organic needs of the tenants that are growing. That historically, that's been the primary driver for the infill has been organic growth. Now, you've got intra-market growth going on as well with groups that are now working to get closer.

But I would say probably the other thing that we need to understand is that the space utilization has gone down because there's more going on in the box. Instead of thinking of a winner and a loser, there might not necessarily be a loser because the capacity and the utilization is going the other way because of all the different things that go on in these boxes.

Jamie Feldman - *Bank of America Merrill Lynch - Analyst*

Okay. So maybe to take a step back and just talk about how people should think about growth from DCT, maybe in terms of both internal growth. Like, what are the drivers right now of your same-store NOI growth?

I know you haven't talked about 2017 yet, but as the business model is in place and you think about occupancy and you think about leasing spreads, and then also cash flow growth. And how does that translate to the bottom line in terms of your ability to grow AFFO and the dividend?

Phil Hawkins - *DCT Industrial Trust - CEO and President*

Well, I think it starts with rent growth. Probably get a little bit more occupancy growth in -- both this year, some of our same-store will come from occupancy growth, and next year I think we've got a little bit of room for --. But for the most part, a lot of it is rent growth from an internal perspective. And I hope that next year looks a lot like this year.

Externally, it's going to come from development. I think on the earnings call I said if I was going to take it over or under on development starts in 2017 versus 2016, I'd take the over. No guidance, no guarantee. But given our pipeline of land and leasing, I feel pretty good about 2017. And I don't see any indication that 2017 from a demand perspective will be disappointing.

We're seeing great activity from and early conversations with customers across the board. Certainly from an economy perspective, it sure seems like the talk is more about the economy is doing better than the Fed would've expected.

So the worry about rate, interest rates, which has got a lot of people thinking about valuations perhaps, really is an indicator of if the economy is as good or better than people would like. And we are seeing that. So I feel good about both external and internal growth.

We'll have a little bit of, I'm sure, a few acquisitions we'll do. But, like this year, it will be fairly modest because we are still focused on not paying more than replacement costs for an asset that we can build ourselves. We'll continue to invest in buying, assembling and titling land to prepare for 2018.

From an AFFO perspective, growth -- we had good growth expected and we are going to achieve, if not better than that, FFO growth in 2016 versus 2015. Because we're no longer selling nearly as much as we were, and we are not selling lower-quality, higher cap rate stuff. We still have a little bit left but it's immaterial.

So FFO growth and AFFO growth, the results of the operating portfolio success is now flowing to the bottom line. We are not delevering in a significant way and we're not transforming the portfolio that we did in a very significant way. Clearly, we'll continue to do a little bit of that. If we could de-lever even a little further, we would. But we still think it's important to deliver earnings growth and not just a portfolio metric growth.

Jamie Feldman - *Bank of America Merrill Lynch - Analyst*

If you think about the building blocks of growth, maybe just to break it out, what are your annual cash rent bumps? What's your mark-to-market, and how much are your portfolio rolls per year? What kind of margin improvement do you think you could have?

I think you said a little bit of occupancy growth. That would be the internal buckets. And then sounds like acquisitions maybe, maybe not incremental driver (multiple speakers).

Phil Hawkins - *DCT Industrial Trust - CEO and President*

And acquisitions, given where pricing is and the level, it's just not a needle mover. If you buy $200 million of assets at a 5.5% cap, it just doesn't move -- it's not a driver.

We're going to do it because it helps the overall portfolio. We like the growth over time. We like the asset. But we are not looking at acquisitions as a -- we're not a spread investor. We're not looking at acquisitions as a way to grow FFO in the near term. It's really more to grow value over time.

I would say the buckets -- I'd say you get a little bit of occupancy growth in 2017. And, again, I'm not trying to create the model. I would say -- and we have not -- honestly, have not rolled out the budget for next year, so I don't even know. But I would say the comps will get a little bit tougher -- rent comps -- in 2017. 2015 and 2016 were as good as it's going to get. And 2016 was better -- as good as 2015, which was surprising.

2017, it doesn't fall off a cliff. But I wouldn't -- I've got to believe that it starts to get a little bit tougher if you're not rolling over rents that are probably done in 2012, 2013. So you're going to get a -- the comps get tougher but not impossible -- but still we've got pretty good embedded rent growth in the portfolio.

And then our average rent bump is between 2.5% and 3%. The most common rent bump we are now getting in new leases is 3%. But larger leases in some markets, 2.5% is still the norm. So I think your average rent bump is probably mid-2%s.

The next rent bump -- and Matt Murphy does a good job on the earnings call and therefore in the transcript about specific metrics, which I don't have with me. But the average next rent bump is actually higher than 3% because in some markets and some leases, it's not an annual rent bump. It's maybe quoted on an annual basis but it's compounded every two and a half years or every --. So, as a result, the next bump is higher than 3% even though it may not be the annualized rate.

Jamie Feldman - *Bank of America Merrill Lynch - Analyst*

Okay.

QUESTIONS AND ANSWERS

Unidentified Audience Member

(inaudible -- microphone inaccessible)

Phil Hawkins - *DCT Industrial Trust - CEO and President*

I'll let Mike -- we're building quite a bit.

Mike Ruen - *DCT Industrial Trust - Managing Director, East Region*

Sure, I can give you a relative example. In Atlanta, a 0.5-million-square-foot building in an infill location, stabilized, meaning all in with improvements and commissions, could run somewhere around $55 a foot. And that is in a market where -- or in a submarket that might command $12 to $15 a foot in land. More a facility in a more bulk-driven market, it might be a little bit less than that, say, $48.

Phil Hawkins - *DCT Industrial Trust - CEO and President*

And if you are just buying that same building, you would probably be paying 110% to 120% of the cost to build it.

Mike Ruen - *DCT Industrial Trust - Managing Director, East Region*

Every bit of that, yes, 20%. Not more.

Phil Hawkins - *DCT Industrial Trust - CEO and President*

So I would say functional buildings in the market today, not just Class A, are trading -- probably functional B buildings, which means they've got 24-foot clearance -- they're not state-of-the-art but they are very functional, a good location, 95% to 100% are replacement costs. And Class A, new state-of-the-art buildings, well over that.

Mike Ruen - *DCT Industrial Trust - Managing Director, East Region*

In many markets we're seeing [trays] up over replacement.

Phil Hawkins - *DCT Industrial Trust - CEO and President*

You know, when you build to a mid 6%, or a low 6% in some markets, and you sell them at a low 5% to mid 4%s, you're paying a lot more than replacement costs.

The problem is most investors can't do what we do, and none of us can do as much as we would like to do.

The development business right now is attractive, and it's stayed attractive because it's hard to do, as I've already talked about. Because you think, how can those margins persist. It's not rational.

And as a result, land prices are coming up fast. Landowners will be the ones that benefit. But, hopefully, the economics of our business, the rationality of our business and the discipline that we've seen will remain in place.

Unidentified Audience Member

(inaudible -- microphone inaccessible)

Phil Hawkins - *DCT Industrial Trust - CEO and President*

I don't always talk about Rosie, but I have lately.

Unidentified Audience Member

Recently (multiple speakers) --

Phil Hawkins - *DCT Industrial Trust - CEO and President*

Yes, no, me too. I'd much rather talk about being how positive things are than not.

You know, the high-volume markets are ones that I think have the potential to be -- have the biggest challenge if demand falls off. So, Dallas -- I think about Dallas as a market we've got tremendous demand but also 18 million, 20 million square feet under construction. You bifurcate that, so a lot of that is in big boxes in the South, and we're building and owning the North in smaller and medium size boxes. But in the end, to me it's the markets that have the most leverage i.e. most supply that is responding to the demand. If the demand -- for whatever reason, an external trigger or whatever happens, that demand goes from that similar level down. Inland Empire, particularly the East, there's a fair amount of construction, but there's unprecedented demand and there's low vacancy.

The thing that's going to be a little different at least in the beginning of a downturn. Unlike last cycle, we are going in -- right now we are at and staying at very low vacancy rates. So market vacancy will -- even if none of the construction -- no more leasing happens, it moves, I think, the market vacancy up by maybe 1.5%. Probably not even that. And that's probably true in Dallas as well, as a specific market.

I'd say Dallas -- Mike, any markets you want to -- what would you have mentioned?

Mike Ruen - *DCT Industrial Trust - Managing Director, East Region*

Again, I would say --

Phil Hawkins - *DCT Industrial Trust - CEO and President*

Central Pennsylvania?

Mike Ruen - *DCT Industrial Trust - Managing Director, East Region*

Central PA, but West, if you will, of the Lehigh Valley, or markets where you see a large part of the demand being regional in nature as opposed to what we refer to as satisfying the local stomachs. So, again, I feel very comfortable even in high-volume markets where you do have a strong demand from the metro as opposed, again, to a regional footprint.

Unidentified Audience Member

(inaudible -- microphone inaccessible)

Mike Ruen - *DCT Industrial Trust - Managing Director, East Region*

Yes, or a more specialized facility. But even for a more traditional fulfillment center or distribution facility in a local market, it wouldn't necessarily be just capital investment. It would be the actual activities that are going on in the box.

For example, you could build a building or a 36-clear-height building, but you can't rack that building to its capacity if you have things that require floor space, which also typically require more labor. So it's really more of the activities in the box that reduce the utilization taking advantage of that cube height in particular.

Phil Hawkins - *DCT Industrial Trust - CEO and President*

There's a question down here.

Unidentified Audience Member

I have a question on the slowing demand potential (inaudible) demand. How do you think the Company will do in a negative GDP environment (inaudible)? Not (inaudible) from a (inaudible) scenario but just wanted to know GDP negative -- the fact that e-commerce is a bigger percentage of business than it was five or 10 years ago. Will that make a difference? Or how much of it (inaudible)?

Phil Hawkins - *DCT Industrial Trust - CEO and President*

We do --

Unidentified Audience Member

Yes, I'm assuming e-commerce will continue to grow at a negative 1% GDP.

Phil Hawkins - *DCT Industrial Trust - CEO and President*

You hope so. And we came out of the recession -- our sector and our Company -- growing much quicker than you would otherwise think based on very slow GDP growth. Because companies -- you know, before e-commerce really started kicking into the -- a lot of what was going on in e-commerce in the four or five years ago was build to suit. Big buildings filling out the basic footprint. But as companies were struggling to grow their top line, they are more focused on their bottom line and their expenses. And distribution and logistics is an important part of that cost control, trying to compete for -- trying to compete in a very difficult environment for them.

So I think our business grew better and faster sooner than you would have otherwise thought. I don't want to be in a recession again, although no doubt it will happen in my lifetime. But we have -- from a DCT perspective, the portfolio repositioning we've done has not been done with -- as much for the good times but for the next tough times. Upgrading the quality of the assets and the quality of the location, being in locations that are hard to duplicate, being in locations and buildings that tenants will want. Because right now, all markets, all locations are doing well. And from an investment perspective, actually, probably the best investment you could have made was in lower-quality buildings because the tide has lifted all of us.

And that is in my mind more -- from an investment strategy perspective, I think that is more of a cycle play than a business play. And we are more focused on building a portfolio that will be -- that will do well in the next downturn, and well is a relative term.

The question we ask on every deal we look at acquisition-wise is how did this do in the last downturn. And also when we are selling, we were selling assets that we felt were we saw suffer and be challenged by the last downturn because of the functional physical attributes for those submarket locations. It really is what drove our strong ambition to reposition the portfolio.

But you know what? When we are in a downturn, all bets are off, and depends on what drives the downturn and what's going on. So I hope I don't find But to me, a great company is one that outperforms not just now but later, and everything we've been doing has been with that in mind.

It's also how we thought about development. We love this business, we love the market, but we also have thought about risk mitigation as well. We don't have -- we've not acquired a lot of land in advance. We are not land banking. We are looking to buy land that we can put in production right away. If you look at the last downturn, we didn't have a large land bank, but so -- the private developers for sure and even some of the public ones, that land gets expensive. And we also are not trying to compete with ourselves.

Houston, I'll use a good example. Nobody saw Houston in oil going from $100 to $25. But we didn't bank land. We had a very successful program in Houston. But when the downturn happened, we had two buildings underway. They are now leased post second quarter end. We have no land. Now, we are practically trying to buy some more land where we see some opportunities. But we can buy land. And from a relative perspective, we -- I'm pretty proud of how we ended up. I think our strategy shows well in Houston.

We have high occupancy, the buildings we sold were buildings that we sold to large portfolios, for us anyway, at the end of 2014, at the end of 2015. We had a heavy concentration of upstream energy and exploration production companies. Those we sold, we -- and they also tend to be the older buildings as well. I mean they are good buildings but they were -- so we -- our portfolio is better. Our occupancy is high. And we have very low exposure to upstream and more exposure to general distribution consumption and some downstream as well.

Unidentified Audience Member

(inaudible -- microphone inaccessible)

Phil Hawkins - *DCT Industrial Trust - CEO and President*

No -- Mike, speak into the mic because we are --

Mike Ruen - *DCT Industrial Trust - Managing Director, East Region*

Other than what we just discussed before, it's really not a critical part of what we do other than the basic parameters. Whether it be clear height, columns facing, most of those are taken into consideration. And it's actually the user at a point in time when they are really examining their supply chain and the logistics type of product, turns, et cetera. All of that really goes into the decisions that get made prior to going out and finding the box.

So, most of the time we know what the footprint entails. They will bring that design out into the marketplace. So, really the supply chain designs and the logistics consultants are learning to work within that generic box.

Phil Hawkins - *DCT Industrial Trust - CEO and President*

Well, you also asked about automation itself within the box.

Unidentified Audience Member

(inaudible) potentially but it forces obsolescence on properties or developments, small kind of opportunities within the box that you've got? (inaudible) capacity that the tenant puts in more CapEx or something, it's got a bit more steam (inaudible) about that.

Mike Ruen - *DCT Industrial Trust - Managing Director, East Region*

Yes, absolutely. And it has. That has been evolving for some time, and it always leads to a level of functional obsolescence. And I would say that there's no question the e-commerce driven and more, if you would, conveyor systems and things of that nature, especially multi-story and mezzanine and things of that nature, have served to accelerate functional obsolescence, which, again, is good for us as we bring in a more high quality or develop a higher-quality portfolio.

So I would say yes, but that's been going on for some time, even before the real focus that we've seen -- for example, Amazon even before they started their barrage of a 62-million-square-foot buildup. We had already seen those forces working on the functionality of the box. But, again, to maintain the flexibility that these users want and need i.e. to be able to come up with a design that will allow them to move within three, five and seven-year hurdles, they need to be able to work within a generic box.

Unidentified Audience Member

(inaudible -- microphone inaccessible)

Mike Ruen - *DCT Industrial Trust - Managing Director, East Region*

Yes, we do. All of our new buildings. And again they're going to be different, based on the type of building, the market, the submarket. Larger bulk building, state-of-the-art would be considered 36-clear or higher. But there are instances, and, again, we do a lot of infill development, primarily infill.

So, for boxes that we are building and let's say Miami or Orlando where we are servicing more of a local tenant or an expanding tenant roster in our facilities, they may be 150,000- to 200,000-square-foot buildings. They're going to be more shallow, not necessarily 36-clear because you don't want to build something that the tenants are paying for but can't utilize. But those clear heights are moving up as well. But they are in the lower sort of call it 30-clear and greater. So sort of a range of 30, 32. And then when you get a little larger, you really don't want to be anything less than 36.

Jamie Feldman - *Bank of America Merrill Lynch - Analyst*

I guess a similar question to the portfolio in a downturn, maybe talk about your philosophy on the balance sheet and preparing that for a downturn and just how much leverage you guys think is appropriate for your business.

Phil Hawkins - *DCT Industrial Trust - CEO and President*

Less is better than more, for sure. And we've been very successful in de-levering. Now our debt to EBITDA is in the high 5s. Would like to keep it there or lower. Our official target is kind of mid-6s. And I think the rating agencies are probably thinking maybe mid-6s or they define it a little differently. But we drop that down. Frankly, at some point the target may actually come down and the rating agencies expect expectations to come down as well.

So we're probably at low 30% leverage. And on market value, low to mid-30%s is my guess. We really don't think about it that much. Coverage ratios are no longer all that relevant with interest rates so low. So, balance sheet has been an important focus and an important accomplishment. Going into the last downturn, we had relatively low leverage, certainly compared to our peers, and it's served us pretty well.

We wish we had lower leverage. We didn't see the severity of 2008 coming in in the liquidity crisis. It happened, but I would say mid-to-high 5s is kind of where we're going to be operating. Right now, we're in the high 5s.

Jamie Feldman - *Bank of America Merrill Lynch - Analyst*

Okay. We saw a big deal overnight with GLP buying Hillwood, having an -- increasing their presence in the US market. Can you just talk to, A, the Hillwood portfolio and any interest you may have had in it, and how it fits -- would it fit with yours. And, B, what do you think it means for the competitive landscape?

Phil Hawkins - *DCT Industrial Trust - CEO and President*

You know, GLP is a public company and they are here. So I'd let them talk about it. We know Hillwood and we certainly know CB that was [East Austin], I don't know if it was a joint deal. We did not take much of a look at it. It wasn't a good fit. It was a targeted marketing process by Hillwood. There are three active buyers they talk to. I'm not going to speculate -- I know who they are, we're not going to speculate or comment on that.

Obviously brand-new portfolio. I don't know a lot about the structure of the deal. Again, I'll let GLP talk about that or Hillwood if they would choose to.

But not a great fit for us for a couple of reasons. One is we are developing our own. GLP has been an acquirer of assets, not a developer of assets. And we -- I would rather acquire, develop a mid-six to mid-seven yield than a mid-five yield. But the forward commit market, which essentially that deal was, is indicative of where pricing is.

I think the market is good. They've got good assets at, I think, a good price from their perspective. I think that I sort of get it. It tells you, Hillwood has done a number of forward commit structures. Some individually, individual buildings and, in this case, a portfolio. It shows you how they are capitalizing their development program both through their own balance sheet equity as well as Ross Perot money, I guess, and as well as institutional investors. And then they have chosen to recapitalize it through a forward commit type structure with the GLP.

Good assets spread around the country, all brand-new, various types of markets from Midwest type market. I'm not sure exactly -- they didn't close on all of it. So I'm not sure what will close on now or what's coming later but, good for them.

Jamie Feldman - *Bank of America Merrill Lynch - Analyst*

And where do you guys think the pricing was, cap rate-wise?

Phil Hawkins - *DCT Industrial Trust - CEO and President*

All I know is what I read, which I think they announced which was a 5% to 7% cap rate. I also read in a real estate alert there was a mid 5% cap rate. That was about three or four months ago when this thing was first -- not announced but talked about by Real Estate Alert. I don't know what the difference in cap rate is. They -- clearly a lot more leasing has happened. And the definition of cap rate is always important to understand; is that GAAP, is it cash, is it forward, is it current? What does that mean?

Mike Ruen - *DCT Industrial Trust - Managing Director, East Region*

And average by market.

Phil Hawkins - *DCT Industrial Trust - CEO and President*

Yes, but mid-5% to 5% to 7% cap rate in any market. And I know, there's some in the kind of some secondary market type locations. I think if you can get a billion dollar portfolio plus or minus in a mid 5% cap rate and you've got the investor base at once that, it's a good transaction.

It doesn't make sense for us. You know, we're not here to -- we can build that for cheaper. And we can't build a $1 billion worth but we don't need $1 billion. And by the way, for us to come up with the cash transaction for $1 billion is also a stretch. I wouldn't -- it just didn't -- it's not a fit for us, which is why frankly Hillwood didn't target us.

Jamie Feldman - *Bank of America Merrill Lynch - Analyst*

Anything else we didn't cover that you want people to know?

Phil Hawkins - *DCT Industrial Trust - CEO and President*

That's a trick question. I think that (inaudible) -- let me springboard off of the Hillwood discussion. I think we have an organization and a Company that is really built to build and acquire assets on a one-off basis to create value through aggregation and through development, not through an allocation of capital.

In my mind, we are not capital allocators. We are not asset accumulators. I don't -- I'd like to be bigger. I'd like to have our equity flow bigger. I think it would help our cost of debt would be more frequent issuers in both the public debt market and the private placement market, which would help us. But other than that, I think the fact is we can create a lot more value for our shareholders by focusing on what we do well, which is competing at a local level to push rents as well as anybody in the market. To source development opportunities, redevelopment opportunities and acquisitions that others -- that are too small for others to worry about or others don't have the infrastructure to do.

We just talked about the acquisition of the Hillwood portfolio. We have a platform -- we compete with Hillwood. I don't view us as trying to be their take-out. I view us as being their competitor. Now, they have a -- there's a different -- totally different -- they have land bank, they build their buildings. We have a different approach to development but we are a competitor, not a takeout.

And our focus is per-share results, not the total size of the balance sheet. And we are of a size and of a focus that allows that strategy to work very well. And we are in an environment that I believe will allow us to sustain those results for quite some time. Knock on wood. I know this is not wood, but it's close enough. Life is good in the industrial sector and let's hope it continues.

Jamie Feldman - *Bank of America Merrill Lynch - Analyst*

Okay, and then I was -- our team was asking three.

Phil Hawkins - *DCT Industrial Trust - CEO and President*

All you've got the rapid -- you've got Bilerman, you're a company and Bilerman, oh, poor guy. Sorry.

Jamie Feldman - *Bank of America Merrill Lynch - Analyst*

He's copying me some business, so don't worry about that.

Phil Hawkins - *DCT Industrial Trust - CEO and President*

Okay, I know.

Jamie Feldman - *Bank of America Merrill Lynch - Analyst*

Which do believe will have a greater impact on REIT stock performance in 2017? Please choose one: US presidential election; real estate emerging as its own GICS industry; or interest rate hikes?

Phil Hawkins - *DCT Industrial Trust - CEO and President*

I've got to say interest rate hikes, and I wish I could say otherwise. I don't think our customer behavior is going to be affected by any of those. Our customers could care less about the code. The presidential election doesn't seem to be. And then of course interest rates -- I don't think it will affect their behavior, but it will certainly affect the valuation of our stock. I looked at it last Friday. And maybe that's a short-term blip and we're going to blow right through it, but I think interest rates do matter no matter how you look back at history and say they don't matter. They matter.

Jamie Feldman - *Bank of America Merrill Lynch - Analyst*

Okay. Will REIT earnings accelerate, decelerate or hold constant in 2017 versus 2016?

Phil Hawkins - *DCT Industrial Trust - CEO and President*

I'd say accelerate. And one word, accelerate, but I would say it's I think in our sector, at least our company, but for sure a lot of the heavy lifting of the glue to portfolio positioning is decelerating, whereas the operating environment and the development environment is still strong, which I think accelerates earnings.

Jamie Feldman - *Bank of America Merrill Lynch - Analyst*

And then for new investors to this space, what do you think is the most important metric to follow: same-store NOI growth, NAV growth, cash flow growth or dividend growth?

Phil Hawkins - *DCT Industrial Trust - CEO and President*

Can I say all?

Jamie Feldman - *Bank of America Merrill Lynch - Analyst*

Yes.

Phil Hawkins - *DCT Industrial Trust - CEO and President*

They all should be related, but it starts with same-store NOI growth. I think that indicates -- I think to me same-store NOI growth is where it all begins.

Jamie Feldman - *Bank of America Merrill Lynch - Analyst*

Okay. All right. Well, I want to thank you both for taking the time, Phil and Mike. And I think now we have a lunch break on the fifth floor.

Phil Hawkins - *DCT Industrial Trust - CEO and President*

Not all of us. Some of us have to go to more meetings. Thanks for coming, everybody.