DCT Industrial Trust Inc.
Form 10-Q
May 04, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2018
OR
¨Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission File Number 001-33201 (DCT Industrial Trust Inc.) 333-195185 (DCT Industrial Operating Partnership LP)

_____

DCT INDUSTRIAL TRUST INC.
DCT INDUSTRIAL OPERATING PARTNERSHIP LP
(Exact name of registrant as specified in its charter)

_____

Maryland (DCT Industrial Trust Inc.)	82-0538520
Delaware (DCT Industrial Operating Partnership LP)	82-0538522
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
555 17th Street, Suite 3700 Denver, Colorado	80202
(Address of principal executive offices)	(Zip Code)
(303) 597-2400 (Registrant's telephone number, including area code)	

_____

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
DCT Industrial Trust Inc. Yes x No ¨ DCT Industrial Operating Partnership LP Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
DCT Industrial Trust Inc. Yes x No ¨ DCT Industrial Operating Partnership LP Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
DCT Industrial Trust Inc.:

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act.
¨

DCT Industrial Operating Partnership LP:

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
DCT Industrial Trust Inc. Yes ¨ No x DCT Industrial Operating Partnership LP Yes ¨ No x
As of April 27, 2018, 94,179,468 shares of common stock of DCT Industrial Trust Inc., par value $0.01 per share, were outstanding.

EXPLANATORY NOTE

This report combines the Quarterly Reports on Form 10-Q for the period ended March 31, 2018 of DCT Industrial Trust Inc., a Maryland corporation, and DCT Industrial Operating Partnership LP, a Delaware limited partnership. Except as otherwise indicated herein, the terms “Company,” “we,” “our” and “us” refer to DCT Industrial Trust Inc. and its subsidiaries, including its operating partnership, DCT Industrial Operating Partnership LP. When we use the term “DCT” or “DCT Industrial,” we are referring to DCT Industrial Trust Inc. by itself, and not including any of its subsidiaries, and when we use the term “Operating Partnership,” we are referring to DCT Industrial Operating Partnership LP by itself, and not including any of its subsidiaries.

We are a leading industrial real estate company specializing in the ownership, acquisition, development, leasing and management of bulk-distribution and light-industrial properties located in high-demand distribution markets in the United States. DCT's actively managed portfolio is strategically located near population centers and well-positioned to take advantage of market dynamics. DCT has elected to be treated as a real estate investment trust, or REIT, for U.S. federal income tax purposes. We are structured as an umbrella partnership REIT under which substantially all our current and future business is, and will be, conducted through a majority owned and controlled subsidiary, DCT Industrial Operating Partnership LP, a Delaware limited partnership, for which DCT is the sole general partner. We own our properties through the Operating Partnership and its subsidiaries. As of March 31, 2018, DCT owned approximately 96.7% of the outstanding equity interests in the Operating Partnership.

We operate DCT and the Operating Partnership as one enterprise. The management of DCT consists of the same members as the management of the Operating Partnership. As general partner with control of the Operating Partnership, DCT consolidates the Operating Partnership for financial reporting purposes. DCT does not have significant assets other than its investment in the Operating Partnership. Therefore, the assets and liabilities of DCT and the Operating Partnership are the same on their respective financial statements.

We believe combining the quarterly reports on Form 10-Q of DCT and the Operating Partnership into this single report results in the following benefits:

- enhances investors’ understanding of DCT and the Operating Partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;
- eliminates duplicative disclosures and provides a more streamlined and readable presentation as a substantial portion of the Company’s disclosures apply to both DCT and the Operating Partnership; and
- creates time and cost efficiencies through the preparation of one combined report instead of two separate reports.

Stockholders’ equity, partners’ capital and noncontrolling interests are the main areas of difference between the Consolidated Financial Statements of DCT and those of the Operating Partnership. Equity interests in the Operating Partnership held by entities other than DCT are classified within partners’ capital in the Operating Partnership’s financial statements and as noncontrolling interests in DCT’s financial statements. Equity interests of 3.3% of the Operating Partnership were owned by executives and non-affiliated limited partners as of March 31, 2018.

To help investors understand the differences between DCT and the Operating Partnership, this report provides separate Consolidated Financial Statements for DCT and the Operating Partnership; a single set of consolidated notes to such financial statements that includes separate discussions of each entity’s stockholders’ equity or partners’ capital, as applicable; and a combined Management’s Discussion and Analysis of Financial Condition and Results of Operations section that includes distinct information related to each entity.

This report also includes separate Part I, Item 4. Controls and Procedures sections and separate Exhibits 31 and 32 certifications for DCT and the Operating Partnership to establish that the requisite certifications have been made and that DCT and the Operating Partnership are both compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350.

DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES
DCT INDUSTRIAL OPERATING PARTNERSHIP LP AND SUBSIDIARIES
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DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(in thousands, except share information)

	March 31, 2018	December 31, 2017
ASSETS	(unaudited)	
Land	$1,172,654	$1,162,908
Buildings and improvements	3,336,574	3,284,976
Intangible lease assets	60,791	65,919
Construction in progress	162,794	149,994
Total investment in properties	4,732,813	4,663,797
Less accumulated depreciation and amortization	(947,731)	(919,186)
Net investment in properties	3,785,082	3,744,611
Investments in and advances to unconsolidated joint ventures	73,691	72,231
Net investment in real estate	3,858,773	3,816,842
Cash and cash equivalents	12,371	10,522
Restricted cash	68,613	14,768
Straight-line rent and other receivables, net of allowance for doubtful accounts of $413 and $425, respectively	81,980	80,119
Other assets, net	30,958	25,740
Assets held for sale	3,146	62,681
Total assets	$4,055,841	$4,010,672
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable and accrued expenses	$95,020	$115,150
Distributions payable	35,182	35,070
Tenant prepaids and security deposits	37,174	34,946
Other liabilities	36,511	34,172
Intangible lease liabilities, net	17,915	18,482
Line of credit	264,000	234,000
Senior unsecured notes	1,328,576	1,328,225
Mortgage notes	158,350	160,129
Liabilities related to assets held for sale	91	1,035
Total liabilities	1,972,819	1,961,209
Equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, none outstanding	—	—
Shares-in-trust, $0.01 par value, 100,000,000 shares authorized, none outstanding	—	—
Common stock, $0.01 par value, 500,000,000 shares authorized, 94,075,171 and 93,707,264 shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	941	937
Additional paid-in capital	2,999,304	2,985,122
Distributions in excess of earnings	(1,005,434)	(1,022,605)
Accumulated other comprehensive loss	(7,352)	(11,893)

Total stockholders' equity	1,987,459	1,951,561
Noncontrolling interests	95,563	97,902
Total equity	2,083,022	2,049,463
Total liabilities and equity	$4,055,841	$4,010,672

The accompanying notes are an integral part of these Consolidated Financial Statements.

DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(unaudited, in thousands, except per share information)

	Three Months Ended March 31,	
	2018	2017
REVENUES:		
Rental revenues	$109,423	$105,424
Institutional capital management and other fees	384	472
Total revenues	109,807	105,896
OPERATING EXPENSES:		
Rental expenses	10,239	9,462
Real estate taxes	16,724	16,766
Real estate related depreciation and amortization	41,232	41,605
General and administrative	7,464	7,192
Casualty loss (gain)	5	(270)
Total operating expenses	75,664	74,755
Operating income	34,143	31,141
OTHER INCOME (EXPENSE):		
Equity in earnings of unconsolidated joint ventures, net	1,077	1,516
Gain on dispositions of real estate interests	32,190	26
Interest expense	(16,050)	(16,755)
Interest and other income (expense)	34	(5)
Impairment loss on land	(371)	—
Income tax expense and other taxes	(81)	(134)
Consolidated net income of DCT Industrial Trust Inc.	50,942	15,789
Net income attributable to noncontrolling interests	(2,119)	(830)
Net income attributable to common stockholders	48,823	14,959
Distributed and undistributed earnings allocated to participating securities	(271)	(161)
Adjusted net income attributable to common stockholders	$48,552	$14,798
NET EARNINGS PER COMMON SHARE:		
Basic	$0.52	$0.16
Diluted	$0.52	$0.16
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	93,812	91,751
Diluted	93,837	91,884
Distributions declared per common share	$0.36	$0.31

The accompanying notes are an integral part of these Consolidated Financial Statements.

DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
(unaudited, in thousands)

	Three Months Ended March 31,	
	2018	2017
Consolidated net income of DCT Industrial Trust Inc.	$50,942	$15,789
Other comprehensive income:		
Net derivative gain on cash flow hedging instruments	3,655	361
Net reclassification adjustment on cash flow hedging instruments	1,100	1,486
Other comprehensive income	4,755	1,847
Comprehensive income	55,697	17,636
Comprehensive income attributable to noncontrolling interests	(2,333)	(899)
Comprehensive income attributable to common stockholders	$53,364	$16,737

The accompanying notes are an integral part of these Consolidated Financial Statements.

DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES
Consolidated Statement of Changes in Equity
(unaudited, in thousands)

	Total Equity	Common Stock		Additional Paid-in Capital	Distributions in Excess of Earnings	Accumulated Other Comprehen-sive Loss	Non-controlling Interests
		Shares	Amount				
Balance at December 31, 2017	$2,049,463	93,707	$ 937	$2,985,122	$(1,022,605)	$ (11,893)	$ 97,902
Cumulative effect of revenue accounting change (Note 2)	2,256	—	—	—	2,256	—	—
Net income	50,942	—	—	—	48,823	—	2,119
Other comprehensive income	4,755	—	—	—	—	4,541	214
Issuance of common stock, net of offering costs	10,769	191	2	10,767	—	—	—
Issuance of common stock, stock-based compensation plans	(907)	28	1	(908)	—	—	—
Amortization of stock-based compensation	1,869	—	—	440	—	—	1,429
Distributions to common stockholders and noncontrolling interests	(35,413)	—	—	—	(33,908)	—	(1,505)
Capital contributions from noncontrolling interests	443	—	—	—	—	—	443
Redemptions of noncontrolling interests	(1,155)	149	1	3,883	—	—	(5,039)
Balance at March 31, 2018	$2,083,022	94,075	$ 941	$2,999,304	$(1,005,434)	$ (7,352)	$ 95,563

The accompanying notes are an integral part of these Consolidated Financial Statements.

DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(unaudited, in thousands)

	Three Months Ended March 31,	
	2018	2017
OPERATING ACTIVITIES:		
Consolidated net income of DCT Industrial Trust Inc.	$50,942	$15,789
Adjustments to reconcile consolidated net income of DCT Industrial Trust Inc. to net cash provided by operating activities:		
Real estate related depreciation and amortization	41,232	41,605
Gain on dispositions of real estate interests	(32,190)	—
Distributions of earnings from unconsolidated joint ventures	1,611	1,671
Equity in earnings of unconsolidated joint ventures, net	(1,077)	(1,516)
Impairment loss on land	371	—
Stock-based compensation	1,569	1,426
Casualty gain (loss)	5	(270)
Straight-line rent	(1,634)	(3,392)
Other	1,180	1,338
Changes in operating assets and liabilities:		
Other receivables and other assets	(2,385)	250
Accounts payable, accrued expenses and other liabilities	(10,601)	(4,703)
Net cash provided by operating activities	49,023	52,198
INVESTING ACTIVITIES:		
Real estate acquisitions	(14,653)	(9,963)
Capital expenditures and development activities	(78,093)	(49,478)
Proceeds from dispositions of real estate investments	98,740	—
Investments in unconsolidated joint ventures	(127)	(3,727)
Proceeds from casualties	—	270
Distributions of investments in unconsolidated joint ventures	383	503
Other investing activities	(1,737)	(2,943)
Net cash provided by (used in) investing activities	4,513	(65,338)
FINANCING ACTIVITIES:		
Proceeds from senior unsecured revolving line of credit	45,000	93,000
Repayments of senior unsecured revolving line of credit	(15,000)	(61,000)
Proceeds from senior unsecured notes	—	51,940
Repayments of senior unsecured notes	—	(25,000)
Principal payments on mortgage notes	(1,694)	(27,954)
Net settlement on issuance of stock-based compensation awards	(907)	(730)
Proceeds from issuance of common stock	10,963	10,729
Offering costs for issuance of common stock and OP Units	(194)	(464)
Redemption of noncontrolling interests	(1,155)	(780)
Dividends to common stockholders	(33,779)	(28,402)
Distributions paid to noncontrolling interests	(1,522)	(1,310)
Contributions from noncontrolling interests	443	80
Other financing activity	—	(608)
Net cash provided by financing activities	2,155	9,501
NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	55,691	(3,639)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of period	25,845	18,074
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of period	$81,536	$14,435

Supplemental Disclosures of Cash Flow Information		
Cash paid for interest, net of capitalized interest	$14,574	$14,264
Supplemental Disclosures of Non-Cash Activities		
Retirement of fully depreciated and amortized assets	$10,145	$7,623
Redemptions of OP Units settled in shares of common stock	$3,884	$1,518
Increase in dividends declared and not paid	$(112)	$(123)
Decrease in capital expenditures accruals	$7,816	$6,088
Capitalized stock compensation	$300	$340

The accompanying notes are an integral part of these Consolidated Financial Statements.

DCT INDUSTRIAL OPERATING PARTNERSHIP LP AND SUBSIDIARIES
Consolidated Balance Sheets
(in thousands, except unit information)

	March 31, 2018	December 31, 2017
ASSETS	(unaudited)	
Land	$1,172,654	$1,162,908
Buildings and improvements	3,336,574	3,284,976
Intangible lease assets	60,791	65,919
Construction in progress	162,794	149,994
Total investment in properties	4,732,813	4,663,797
Less accumulated depreciation and amortization	(947,731)	(919,186)
Net investment in properties	3,785,082	3,744,611
Investments in and advances to unconsolidated joint ventures	73,691	72,231
Net investment in real estate	3,858,773	3,816,842
Cash and cash equivalents	12,371	10,522
Restricted cash	68,613	14,768
Straight-line rent and other receivables, net of allowance for doubtful accounts of $413 and $425, respectively	81,980	80,119
Other assets, net	30,958	25,740
Assets held for sale	3,146	62,681
Total assets	$4,055,841	$4,010,672
LIABILITIES AND CAPITAL		
Liabilities:		
Accounts payable and accrued expenses	$95,020	$115,150
Distributions payable	35,182	35,070
Tenant prepaids and security deposits	37,174	34,946
Other liabilities	36,511	34,172
Intangible lease liabilities, net	17,915	18,482
Line of credit	264,000	234,000
Senior unsecured notes	1,328,576	1,328,225
Mortgage notes	158,350	160,129
Liabilities related to assets held for sale	91	1,035
Total liabilities	1,972,819	1,961,209
Partners' Capital:		
General Partner:		
OP Units, 973,166 and 969,565 issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	20,748	20,467
Limited Partners:		
OP Units, 96,343,447 and 95,986,961 issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	2,054,071	2,026,234
Accumulated other comprehensive loss	(7,604)	(12,303)
Total partners' capital	2,067,215	2,034,398
Noncontrolling interests	15,807	15,065
Total capital	2,083,022	2,049,463
Total liabilities and capital	$4,055,841	$4,010,672

The accompanying notes are an integral part of these Consolidated Financial Statements.

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DCT INDUSTRIAL OPERATING PARTNERSHIP LP AND SUBSIDIARIES
Consolidated Statements of Operations
(unaudited, in thousands, except per unit information)

	Three Months Ended March 31,	
	2018	2017
REVENUES:		
Rental revenues	$109,423	$105,424
Institutional capital management and other fees	384	472
Total revenues	109,807	105,896
OPERATING EXPENSES:		
Rental expenses	10,239	9,462
Real estate taxes	16,724	16,766
Real estate related depreciation and amortization	41,232	41,605
General and administrative	7,464	7,192
Casualty loss (gain)	5	(270)
Total operating expenses	75,664	74,755
Operating income	34,143	31,141
OTHER INCOME (EXPENSE):		
Equity in earnings of unconsolidated joint ventures, net	1,077	1,516
Gain on dispositions of real estate interests	32,190	26
Interest expense	(16,050)	(16,755)
Interest and other income (expense)	34	(5)
Impairment loss on land	(371)	—
Income tax expense and other taxes	(81)	(134)
Consolidated net income of DCT Industrial Operating Partnership LP	50,942	15,789
Net income attributable to noncontrolling interests	(388)	(233)
Net income attributable to OP Unitholders	50,554	15,556
Distributed and undistributed earnings allocated to participating securities	(271)	(161)
Adjusted net income attributable to OP Unitholders	$50,283	$15,395
NET EARNINGS PER OP UNIT:		
Basic	$0.52	$0.16
Diluted	$0.52	$0.16
WEIGHTED AVERAGE OP UNITS OUTSTANDING:		
Basic	97,135	95,416
Diluted	97,160	95,549
Distributions declared per OP Unit	$0.36	$0.31

The accompanying notes are an integral part of these Consolidated Financial Statements.

DCT INDUSTRIAL OPERATING PARTNERSHIP LP AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
(unaudited, in thousands)

	Three Months Ended March 31,	
	2018	2017
Consolidated net income of DCT Industrial Operating Partnership LP	$50,942	$15,789
Other comprehensive income:		
Net derivative gain on cash flow hedging instruments	3,655	361
Net reclassification adjustment on cash flow hedging instruments	1,100	1,486
Other comprehensive income	4,755	1,847
Comprehensive income	55,697	17,636
Comprehensive income attributable to noncontrolling interests	(444)	(247)
Comprehensive income attributable to OP Unitholders	$55,253	$17,389

The accompanying notes are an integral part of these Consolidated Financial Statements.

DCT INDUSTRIAL OPERATING PARTNERSHIP LP AND SUBSIDIARIES
Consolidated Statement of Changes in Capital
(unaudited, in thousands)

	Total Capital	General Partner OP Units		Limited Partners OP Units		Accumulated Other Comprehensive Loss	Non-controlling Interests
		Units	Amount	Units	Amount		
Balance at December 31, 2017	$2,049,463	970	$20,467	95,987	$2,026,234	$ (12,303)	$ 15,065
Cumulative effect of revenue accounting change (Note 2)	2,256	—	23	—	2,233	—	—
Net income	50,942	—	506	—	50,048	—	388
Other comprehensive income	4,755	—	—	—	—	4,699	56
Issuance of OP Units, net of selling costs	10,769	—	—	191	10,769	—	—
Issuance of OP Units, share-based compensation plans	(907)	—	—	190	(907)	—	—
Amortization of share-based compensation	1,869	—	—	—	1,869	—	—
Distributions to OP Unitholders and noncontrolling interests	(35,413)	—	(352)	—	(34,858)	—	(203)
Capital contributions from noncontrolling interests	443	—	—	—	—	—	443
Redemption of limited partner OP Units, net	(1,155)	—	—	(21)	(1,213)	—	58
Conversion of limited partner OP Units to OP Units of general partner	—	4	104	(4)	(104)	—	—
Balance at March 31, 2018	$2,083,022	974	$20,748	96,343	$2,054,071	$ (7,604)	$ 15,807

The accompanying notes are an integral part of these Consolidated Financial Statements.

DCT INDUSTRIAL OPERATING PARTNERSHIP LP AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(unaudited, in thousands)

	Three Months Ended March 31,	
	2018	2017
OPERATING ACTIVITIES:		
Consolidated net income of DCT Industrial Operating Partnership LP	$50,942	$15,789
Adjustments to reconcile consolidated net income of DCT Industrial Operating Partnership LP to net cash provided by operating activities:		
Real estate related depreciation and amortization	41,232	41,605
Gain on dispositions of real estate interests	(32,190)	—
Distributions of earnings from unconsolidated joint ventures	1,611	1,671
Equity in earnings of unconsolidated joint ventures, net	(1,077)	(1,516)
Impairment loss on land	371	—
Share-based compensation	1,569	1,426
Casualty gain (loss)	5	(270)
Straight-line rent	(1,634)	(3,392)
Other	1,180	1,338
Changes in operating assets and liabilities:		
Other receivables and other assets	(2,385)	250
Accounts payable, accrued expenses and other liabilities	(10,601)	(4,703)
Net cash provided by operating activities	49,023	52,198
INVESTING ACTIVITIES:		
Real estate acquisitions	(14,653)	(9,963)
Capital expenditures and development activities	(78,093)	(49,478)
Proceeds from dispositions of real estate investments	98,740	—
Investments in unconsolidated joint ventures	(127)	(3,727)
Proceeds from casualties	—	270
Distributions of investments in unconsolidated joint ventures	383	503
Other investing activities	(1,737)	(2,943)
Net cash provided by (used in) investing activities	4,513	(65,338)
FINANCING ACTIVITIES:		
Proceeds from senior unsecured revolving line of credit	45,000	93,000
Repayments of senior unsecured revolving line of credit	(15,000)	(61,000)
Proceeds from senior unsecured notes	—	51,940
Repayments of senior unsecured notes	—	(25,000)
Principal payments on mortgage notes	(1,694)	(27,954)
Net settlement on issuance of share-based compensation awards	(907)	(730)
Proceeds from the issuance of OP Units in exchange for contributions from the REIT, net	10,769	10,265
OP Unit redemptions	(1,155)	(780)
Distributions paid on OP Units	(35,098)	(29,631)
Distributions paid to noncontrolling interests	(203)	(81)
Contributions from noncontrolling interests	443	80
Other financing activity	—	(608)
Net cash provided by financing activities	2,155	9,501
NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	55,691	(3,639)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of period	25,845	18,074

CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of period	$81,536	$14,435
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest, net of capitalized interest	$14,574	$14,264
Supplemental Disclosures of Non-Cash Activities		
Retirement of fully depreciated and amortized assets	$10,145	$7,623
Decrease increase in capital expenditures accruals	$7,816	$6,088
Capitalized stock compensation	$300	$340

The accompanying notes are an integral part of these Consolidated Financial Statements.

DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES
DCT INDUSTRIAL OPERATING PARTERNSHIP LP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

Note 1 – Organization

DCT Industrial Trust Inc. is a leading industrial real estate company specializing in the ownership, acquisition, development, leasing and management of bulk-distribution and light-industrial properties located in high-demand distribution markets in the United States. DCT's actively managed portfolio is strategically located near population centers and well-positioned to take advantage of market dynamics. As used herein, the terms “Company,” “we,” “our” and “us” refer to DCT Industrial Trust Inc. and its subsidiaries, including its operating partnership, DCT Industrial Operating Partnership LP. When we use the term “DCT” or “DCT Industrial,” we are referring to DCT Industrial Trust Inc. by itself, and not including any of its subsidiaries, and when we use the term “Operating Partnership,” we are referring to DCT Industrial Operating Partnership LP by itself, and not including any of its subsidiaries.

DCT was formed as a Maryland corporation in April 2002 and has elected to be treated as a real estate investment trust, or REIT, for U.S. federal income tax purposes. We are structured as an umbrella partnership REIT under which substantially all our current and future business is, and will be, conducted through a majority owned and controlled subsidiary, DCT Industrial Operating Partnership LP, a Delaware limited partnership, for which DCT is the sole general partner. DCT owns properties through the Operating Partnership and its subsidiaries. As of March 31, 2018, DCT owned approximately 96.7% of the outstanding equity interests in the Operating Partnership.

As of March 31, 2018, the Company owned interests in approximately 73.7 million square feet of properties leased to approximately 840 customers, including:

- 63.3 million square feet comprising 393 consolidated operating properties, including five properties totaling 101,000 square feet classified as held for sale, that were 97.7% occupied;
- 1.7 million square feet comprising six consolidated properties developed by DCT which are shell-construction complete and in lease-up;
- 0.1 million square feet comprising one consolidated property under redevelopment;
- 1.0 million square feet comprising four consolidated value-add acquisitions; and
- 7.6 million square feet comprising 21 unconsolidated properties that were 99.2% occupied and which we operated on behalf of two unconsolidated joint ventures.

In addition, the Company has 20 projects under construction and 13 projects in pre-development. See “Note 3 – Investment in Properties” for further details related to our development activity.

Note 2 – Summary of Significant Accounting Policies

Interim Financial Information

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial information. Accordingly, these statements do not include all the information and notes required by GAAP for complete financial statements. In the opinion of management, the accompanying unaudited Consolidated Financial Statements include all adjustments, consisting of normal recurring items, necessary for their fair presentation in conformity with GAAP. Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with our audited Consolidated Financial Statements as of December 31, 2017 and related notes thereto included in our Form 10-K filed on February 16, 2018.

Basis of Presentation and Principles of Consolidation

The accompanying Consolidated Financial Statements include the financial position, results of operations and cash flows of the Company, the Operating Partnership, their wholly-owned qualified REIT subsidiaries and taxable REIT subsidiaries, and their consolidated joint ventures in which they have a controlling interest.

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Equity interests in the Operating Partnership held by entities other than DCT are classified within partners' capital in the Operating Partnership's financial statements and as noncontrolling interests in DCT's financial statements. Equity interests in entities consolidated into the Operating Partnership that are held by third parties are reflected in our accompanying balance sheets as noncontrolling interests. We also have noncontrolling partnership interests in unconsolidated institutional capital management and other joint ventures, which are accounted for under the equity method. All significant intercompany transactions and balances have been eliminated in consolidation.

We hold interests in both consolidated and unconsolidated joint ventures for the purposes of operating and developing industrial real estate. All joint ventures over which we have financial and operating control, and variable interest entities ("VIEs") in which we have determined that we are the primary beneficiary, are included in the Consolidated Financial Statements. We use the equity method of accounting for joint ventures where we exercise significant influence, but do not have control over major operating and management decisions and we include our share of earnings or losses of these joint ventures in our consolidated results of operations.

We analyze our joint ventures in accordance with GAAP to determine whether they are VIEs and, if so, whether we are the primary beneficiary. Our judgment with respect to our level of influence or control over an entity and whether we are the primary beneficiary of a VIE involves consideration of various factors including the form of our ownership interest, our representation on the entity's board of directors (or equivalent body), the size of our investment (including loans), our obligation or right to absorb its losses or receive its benefits and our ability to participate in major decisions.

If a joint venture does not meet the characteristics of a VIE, we apply the voting interest model to determine whether the entity should be consolidated. Our ability to assess our influence or control over an entity affects the presentation of these investments in the Consolidated Financial Statements and our financial position and results of operations.

We concluded our Operating Partnership meets the criteria of a VIE as the Operating Partnership's limited partners do not have the right to remove the general partner and do not have substantive participating rights in the operations of the Operating Partnership. Under the Amended and Restated Limited Partnership Agreement of the Operating Partnership (the "Partnership Agreement"), DCT is the primary beneficiary of the Operating Partnership as we have the obligation to absorb losses and receive benefits, and the power to control substantially all the activities which most significantly impact the economic performance of the Operating Partnership. Accordingly, the Operating Partnership is consolidated within DCT's financial statements.

Use of Estimates

The preparation of the Consolidated Financial Statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents include cash held in financial institutions and other highly liquid short-term investments with original maturities of three months or less. We have not realized any losses in our cash and cash equivalents and believe that these short-term instruments are not exposed to any significant credit risk. Restricted cash consists of escrow deposits held by lenders for real estate taxes, insurance and capital replacement reserves, security deposits and amounts held by intermediary agents to be used for tax-deferred, like-kind exchange transactions. As of March 31, 2018, approximately $67.4 million of restricted cash was included in "Cash, Cash Equivalents and Restricted Cash" in our Consolidated Statements of Cash Flows related to tax deferred, like-kind exchange transactions.

The following table presents a reconciliation of cash, cash equivalents and restricted cash reported within our Consolidated Balance Sheets to amounts reported within our Consolidated Statements of Cash Flows (in thousands):

	As of March 31,	
	2018	2017
Cash and cash equivalents	$12,371	$12,353
Restricted cash	68,613	1,651
Restricted cash included in Other assets, net[(1)]	552	431

Total cash, cash equivalents and restricted cash	$81,536	$14,435

(1) Includes cash balances presented in assets held for sale in our Consolidated Balance Sheets.

Revenue Recognition

At the inception of a new lease arrangement, including new leases that arise from amendments, we assess the terms and conditions to determine the proper lease classification. A lease arrangement is classified as an operating lease if none of the following criteria are met: (i) transfer of ownership to the lessee, (ii) lessee has a bargain purchase option during or at the end of the lease term, (iii) the lease term is equal to 75% or more of the underlying property's economic life, or (iv) the present value of future minimum lease payments (excluding executory costs) are equal to 90% or more of the excess estimated fair value (over retained investment tax credits) of the leased building. Generally, our leases do not meet any of the listed criteria above and are classified as operating leases.

We record rental revenues on a straight-line basis under which contractual rent increases are recognized evenly over the lease term. Certain properties have leases that provide for tenant occupancy during periods where no rent is due or where minimum rent payments change during the term of the lease. Accordingly, receivables from tenants that we expect to collect over the remaining lease term are recorded on the balance sheet as straight-line rent receivables. The total increase to "Rental revenues" due to straight-line rent adjustments was approximately $1.6 million and $3.4 million for the three months ended March 31, 2018, and 2017, respectively.

If the lease provides for tenant improvements, we determine whether the tenant improvements are owned by the tenant or us. When we are the owner of the tenant improvements, the tenant generally is not considered to have taken physical possession or have control of the leased asset until the tenant improvements are substantially complete. When we are the owner of the tenant improvements, any tenant improvements funded by the tenant are treated as lease payments which are deferred and amortized into rental revenues over the lease term. When the tenant is the owner of the tenant improvements, we record any tenant improvement allowance funded as a lease incentive and amortize it as a reduction of rental revenue over the lease term. Tenant recovery income includes reimbursements due from tenants pursuant to their leases for real estate taxes, insurance, repairs and maintenance and other recoverable property operating expenses and is recognized as "Rental revenues" during the period the related expenses are incurred. The reimbursements are recognized and presented on a gross basis, as the Company generally has control for fulfillment of services and other costs that are reimbursable, with respect to purchasing goods and services from third party suppliers. Tenant recovery income recognized as "Rental revenues" was approximately $26.9 million and $25.9 million for the three months ended March 31, 2018 and 2017, respectively. We maintain an allowance for estimated losses that may result from the inability of our customers to make required payments. If a customer fails to make contractual payments beyond any allowance, we may recognize additional bad debt expense in future periods equal to the net outstanding balances.

In connection with property acquisitions qualifying as asset acquisitions or business combinations, we may acquire leases with rental rates above or below the market rental rates. Such differences are recorded as an intangible lease asset or liability and amortized to "Rental revenues" over the reasonably assured term of the related leases. We consider a reasonably assured term to be the measurement period equal to the remaining non-cancelable term of the lease for above-market leases and the initial term plus the term of any below-market fixed rate renewal options for below-market leases. The unamortized balances of these assets and liabilities associated with the early termination of leases are fully amortized to their respective revenue line items in our Consolidated Statements of Operations on a straight-line basis over the estimated remaining contractual lease term. The total net impact to "Rental revenues" due to the amortization of above and below market rents was an increase of approximately $0.7 million for the three months ended March 31, 2018 and 2017.

Early lease termination fees are recorded in "Rental revenues" on a straight-line basis over the estimated remaining contractual lease term or upon collection if collectability is not assured. Early lease termination fees were approximately $0.4 million and $0.5 million for the three months ended March 31, 2018 and 2017, respectively.

We earn revenues from asset management fees, acquisition fees, property management fees and fees for other services pursuant to joint venture and other third-party agreements. These are included in our Consolidated Statements of Operations in "Institutional capital management and other fees." We recognize revenues from asset management fees, acquisition fees, property management fees and fees for other services when the related underlying performance

obligations to the customer are satisfied, which is when the services are performed.

New Accounting Standards

New Accounting Standards Adopted

In May 2014, FASB issued ASU 2014-09 Revenue from Contracts with Customers (“ASU 2014-09”), that requires companies to recognize revenue from contracts with customers based upon the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard also results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. The FASB subsequently issued additional ASUs which improve guidance and provide clarification of the new standard. The guidance is effective for fiscal years beginning after December 15, 2017, with early adoption permitted for fiscal years beginning after December 15, 2016. The Company adopted the standard effective January 1, 2018 and utilized the modified retrospective transition method.

Given the nature of our business, our primary revenue stream is from relatively short-term operating leases with tenants. Additionally, our historical property dispositions have been cash sales with no contingencies and no future involvement in the property operations. Our revenues that are under the scope of ASU 2014-09 are related to our asset management fees, acquisition fees, property management fees and fees for other services pursuant to joint venture and other third-party agreements, which are included in our Consolidated Statements of Operations in “Institutional capital management and other fees" as shown below:

	As of March 31,	
	2018	2017
Rental revenues	$109,423	$105,424
Institutional capital management and other fees	384	472
Total revenues	$109,807	$105,896

Substantially all of our revenues are generated from lease rentals, which fall under the scope of the new lease accounting ASU discussed below in New Accounting Standards Issued but not yet Adopted. We are still evaluating the treatment of nonlease components in our leases that primarily relate tenant recovery income for such items as common area maintenance expenses, which are also under the scope of the new lease accounting ASU.

As a result of adoption, the total impact to our financial statements in the first quarter of 2018 was a cumulative adjustment recorded as an increase of $2.3 million to “Investments in and advances to unconsolidated joint ventures” and a decrease to “Distributions in excess of earnings” related to the de-recognition of deferred gains related to a previous contributions of real estate properties into our joint ventures. No other material impacts to the Consolidated Financial Statements and related disclosures or internal control environment were identified upon adoption.

New Accounting Standards Issued but not yet Adopted

In February 2016, the FASB issued an ASU that modifies existing accounting standards for lease accounting. The new standard requires a lessee to record a lease asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. Leases in which we are the lessors will be accounted as sales-type leases, direct financing leases or operating leases. Revenue related to the lease components of a lease contract will be recognized on a straight-line basis. The guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted for fiscal years beginning after December 15, 2016.

The Company has a limited number of office and ground leases which will require further evaluation by the Company, but we anticipate they will be treated as operating leases, which will result in the Company recording a lease liability for our obligation for payments over the remaining lease term and an offsetting right-of-use asset in our Consolidated Balance Sheets. As disclosed in our annual Consolidated Financial Statements as of December 31, 2017 and related notes thereto included in our Form 10-K, we had $18.9 million of future noncancelable lease payments primarily related to our office and ground leases that will be required to be recorded on our Consolidated Balance Sheets. Our operating leases for which we are the lessee will generally have an expense pattern consistent with our historical recognition for operating leases. We don't anticipate the impact of the lease accounting ASU for leases in which we are the lessee to have a material impact on our Consolidated Financial Statements.

Leases in which we are the lessor will continue to be accounted for as operating leases with minimal impact on the Company's financial condition or results of operation; however, this standard may impact the timing of recognition and disclosures related to our tenant recovery income earned from leasing our consolidated operating properties. As such, we are currently evaluating the impact of nonlease components such as tenant recovery income. Additionally, the standard only allows for the capitalization of the initial direct costs that would have been incurred if the lease had not been obtained. The adoption of this guidance will impact our current policy regarding the capitalization of internal direct costs related to the successful origination of new leases and likely will reduce the amount of costs we currently capitalize for new leases. During the three months ended March 31, 2018, we capitalized $0.8 million of internal direct costs related to successful origination of new leases.

We are currently evaluating the impacts of the new lease standard, which includes taking inventory of leases in which we are the lessee, changing internal policies and processes with regards to the cost to obtain leases, evaluating the appropriate accounting treatment for nonlease elements in which we are the lessor and evaluating the impact on our internal controls. The standard requires a modified retrospective transition approach for all capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with an option to use certain transition relief. The Company expects to adopt this standard effective January 1, 2019.

Note 3 – Investment in Properties

Our consolidated investment in properties consists of our operating portfolio, value-add acquisitions, properties under development, properties in pre-development, redevelopment properties and land held for development or other purposes. The historical cost of our investment in properties was (in thousands):

	As of March 31, 2018	As of December 31, 2017
Operating portfolio	$4,261,599	$4,249,242
Properties under development	320,062	280,492
Properties in pre-development	60,412	51,883
Properties under redevelopment[1]	9,838	9,481
Value-add acquisitions[2]	77,246	68,673
Land held[3]	3,656	4,026
Total investment in properties	4,732,813	4,663,797
Less accumulated depreciation and amortization	(947,731)	(919,186)

Net investment in properties	$3,785,082	$3,744,611

(1) Represents properties out of service while significant physical renovation of the property is underway or while the property is in lease-up subsequent to such renovation. May include properties taken out of service to change the properties' use and/or enhance its functionality.

(2) Consolidated properties that were acquired and upon acquisition met either of the following criteria:

- Occupancy of less than 75% upon acquisition; or
- Occupancy of less than 75% expected to occur due to known move-outs within 24 months of the acquisition date.

Consolidated properties that were acquired vacant or with known move-outs within 24 months of the acquisition date with the intention to have the property out of service for significant physical renovations are classified as redevelopment properties.

(3) Land held that is not intended to be improved or developed in the near future.

Acquisition Activity

During the three months ended March 31, 2018, we acquired one building totaling approximately 37.0 thousand square feet located in our Northern California market for a total purchase price of approximately $7.1 million. The building is classified as a Value-Add Acquisition as it was acquired via a sale-leaseback transaction with a short lease that expires on August 31, 2018.

Development Activity

Our properties under development include the following:

- Six buildings in our Chicago, Dallas, Denver and Northern California markets totaling approximately 1.7 million square feet that we completed shell-construction as of March 31, 2018 with cumulative costs to date of approximately $106.8 million. These properties are 15.2% leased and occupied based on weighted average square feet as of March 31, 2018.
- Twenty projects under construction totaling approximately 4.2 million square feet with cumulative costs to date of approximately $213.3 million.

During the three months ended March 31, 2018, we acquired approximately 9.2 acres of land for development in our Southern California market for approximately $7.3 million.

Disposition Activity

During the three months ended March 31, 2018, we sold six consolidated operating properties totaling approximately 1.9 million square feet from our Atlanta, Charlotte, Memphis, Northern California and Phoenix markets to third-parties for gross proceeds of approximately $100.9 million. We recognized gains of approximately $32.2 million on the disposition of these properties.

Impairment Loss on Land

During the three months ended March 31, 2018, the Company recognized a $0.4 million impairment loss on land held and used. Located in Reno, Nevada, the land was being held for future development. The land is currently under contract and in due diligence. Based on the Company's intent to sell and various market estimates, we recorded an impairment to recognize the land at estimated fair value, which was primarily based on level 3 fair value inputs.

Intangible Lease Assets and Liabilities

Aggregate amortization expense for intangible lease assets recognized in connection with property acquisitions (excluding assets and liabilities related to above and below market rents; see "Note 2 – Summary of Significant Accounting Policies" for additional information) was approximately $2.2 million and $2.8 million for the three months ended March 31, 2018 and 2017, respectively. Our intangible lease assets and liabilities included the following (in thousands):

	As of March 31, 2018			As of December 31, 2017		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Other intangible lease assets	$57,657	$ (34,125)	$23,532	$62,785	$ (37,114)	$25,671
Above market rent	$3,134	$ (1,870)	$1,264	$3,134	$ (1,756)	$1,378
Below market rent	$(28,624)	$ 10,709	$(17,915)	$(28,883)	$ 10,401	$(18,482)

Note 4 – Investments in and Advances to Unconsolidated Joint Ventures

We enter into joint ventures primarily for purposes of operating and developing industrial real estate. Our investments in these joint ventures are included in "Investments in and advances to unconsolidated joint ventures" in our Consolidated Balance Sheets.

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The following table summarizes our unconsolidated joint ventures (dollars in thousands):

Unconsolidated Joint Ventures	As of March 31, 2018		Investments in and Advances to as of	
	Ownership Percentage	Number of Buildings	March 31, 2018	December 31, 2017
Institutional Joint Ventures:				
DCT/SPF Industrial Operating LLC	20.0 %	13	$38,595	$ 36,630
TRT-DCT Venture III	10.0 %	—	220	220
Total Institutional Joint Ventures		13	38,815	36,850
Other:				
SCLA[1]	50.0 %	8	34,876	35,381
Total		21	$73,691	$ 72,231

(1) Although we contributed 100% of the initial cash equity capital required by the venture, after return of certain preferential distributions on capital invested, profits and losses are generally split 50/50.

Guarantees

There are no lines of credit or side agreements related to, or between, our unconsolidated joint ventures and us, and there are no derivative financial instruments between our unconsolidated joint ventures and us. In addition, we do not believe we have any material exposure to financial guarantees.

Note 5 – Financial Instruments and Hedging Activities

Fair Value of Financial Instruments

As of March 31, 2018, and December 31, 2017, the fair values of cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximated their carrying values due to the short-term nature of settlement of these instruments. The fair values of other financial instruments subject to fair value disclosures were determined based on available market information and valuation methodologies we believe to be appropriate estimates for these purposes. Considerable judgment and a high degree of subjectivity are involved in developing these estimates. Our estimates may differ from the actual amounts that we could realize upon disposition. The following table summarizes these financial instruments (in thousands):

	As of March 31, 2018		As of December 31, 2017	
	Carrying Amounts	Estimated Fair Value	Carrying Amounts	Estimated Fair Value
Borrowings:[1]				
Senior unsecured revolving credit facility	$264,000	$264,000	$234,000	$234,000
Fixed rate debt[2]	$1,368,622	$1,390,321	$1,370,421	$1,419,518
Variable rate debt	$125,000	$122,125	$125,000	$123,020
Interest rate contracts:				
Interest rate swap asset[3]	$7,387	$7,387	$3,866	$3,866

(1) The fair values of our borrowings were estimated using a discounted cash flow methodology. Credit spreads and market interest rates used to determine the fair value of these instruments are based on unobservable Level 3 inputs which management has determined to be its best estimate of current market values.

(2) The carrying amount of our fixed rate debt includes premiums and discounts and excludes deferred loan costs.

(3) The fair values of our interest rate swaps is determined using the market standard methodology of netting the discounted future fixed cash flows and the discounted expected variable cash flows based on an expectation of

future interest rates derived from Level 2 observable market interest rate curves. The asset or liability is included in "Other assets, net" or "Other liabilities," respectively, in our Consolidated Balance Sheets.

Hedging Activities

To manage interest rate risk for variable rate debt and issuances of fixed rate debt, we primarily use treasury locks and interest rate swaps as part of our cash flow hedging strategy. These derivatives are designed to mitigate the risk of future interest rate increases by providing a fixed interest rate for a limited, pre-determined period of time. Such derivatives have been used to hedge the variability in existing and future interest expense associated with existing variable rate borrowings and forecasted issuances of debt, which may include issuances of new debt, as well as refinancing of existing debt upon maturity.

Accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the designation of the derivative, whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge.

For derivatives designated as “cash flow” hedges, the change in the fair value of the derivative is initially reported in “Other comprehensive income” (“OCI”) in our Consolidated Statements of Comprehensive Income (i.e., not included in earnings) and subsequently reclassified into “Interest expense” when the hedged transaction affects earnings or the hedging relationship is no longer highly effective. We assess the effectiveness of each hedging relationship whenever financial statements are issued or earnings are reported and at least every three months. We do not use derivatives for trading or speculative purposes.

During June 2013, certain of our consolidated ventures entered into two pay-fixed, receive-floating interest rate swaps to hedge the variability of future cash flows attributable to changes in the 1 month USD LIBOR rates. The pay-fixed, receive-floating interest rate swaps have an effective date of June 2013 and a maturity date of June 2023. These interest rate swaps effectively fix the interest rate on the related debt instruments at 4.72%. As of March 31, 2018, and December 31, 2017, we had borrowings payable subject to these pay-fixed, receive-floating interest rate swaps with aggregate principal balances of approximately $6.4 million for both periods presented.

During December 2015, we entered into a pay-fixed, receive-floating interest rate swap to hedge the variability of future cash flows attributable to changes in the 1 month USD LIBOR rates on our $200.0 million unsecured term loan. The pay-fixed, receive-floating interest rate swap has an effective date of December 2015 and a maturity date of December 2022. During December 2017, we amended the senior unsecured term loan, lowering our margin to between .90% to 1.75% per annum effective January 1, 2018. The interest rate swap effectively fixes the interest rate on the related debt instrument at 2.81%, however, there is no floor on the variable interest rate of the swap whereas the current variable rate debt is subject to a 0.0% floor. In the event that USD LIBOR is negative, the Company will make payments to the hedge counterparty equal to the negative spread between USD LIBOR and zero. As of March 31, 2018, and December 31, 2017, the entire $200.0 million principal amount of the term loan was subject to this pay-fixed, receive-floating interest rate swap.

The following table presents the effect of our derivative financial instruments on our accompanying Consolidated Financial Statements (in thousands):

	For the Three Months Ended March 31,	
	2018	2017
Derivatives in Cash Flow Hedging Relationships		
Interest Rate Swaps:		
Amount of gain recognized in OCI for derivatives	$3,655	$361
Amount of loss reclassified from accumulated OCI for derivatives into interest expense and equity in earnings of unconsolidated joint ventures, net	$(1,100)	$(1,486)
Amount of loss recognized in interest expense (ineffective portion and amount excluded from effectiveness testing)	$—	$(30)

Amounts reported in “Accumulated other comprehensive loss” related to derivatives will be amortized to “Interest expense” as interest payments are made on our current debt and anticipated debt issuances. During the next 12 months, we estimate that approximately $2.9 million will be reclassified from “Accumulated other comprehensive loss” to “Interest expense” resulting in an increase in interest expense.

Note 6 – Outstanding Indebtedness

As of March 31, 2018, our outstanding indebtedness of approximately $1.8 billion consisted of senior unsecured notes, bank unsecured credit facilities and mortgage notes, excluding approximately $51.7 million representing our proportionate share of non-recourse debt associated with unconsolidated joint ventures. As of December 31, 2017, our outstanding indebtedness of approximately $1.7 billion consisted of senior unsecured notes, bank unsecured credit facilities and mortgage notes, excluding approximately $51.9 million representing our proportionate share of non-recourse debt associated with unconsolidated joint ventures.

As of March 31, 2018, the gross book value of our consolidated properties was approximately $4.7 billion and the gross book value of all properties securing our mortgage debt was approximately $0.5 billion. As of December 31, 2017, the gross book value of our consolidated properties was approximately $4.7 billion and the gross book value of all properties securing our mortgage debt was approximately $0.5 billion. Our debt has various covenants with which we were in compliance as of March 31, 2018 and December 31, 2017.

Line of Credit

As of March 31, 2018, we had $264.0 million outstanding and $134.1 million available under our $400.0 million senior unsecured revolving credit facility, net of two letters of credit totaling $1.9 million. As of December 31, 2017, we had $234.0 million outstanding and $164.1 million available under our $400.0 million senior unsecured revolving credit facility, net of two letters of credit totaling $1.9 million.

Guarantee of Debt

DCT has guaranteed the Operating Partnership’s obligations with respect to the senior unsecured notes and the bank unsecured credit facilities.

Note 7 – Noncontrolling Interests

DCT

Noncontrolling interests are the portion of equity, or net assets, in a subsidiary not attributable, directly or indirectly, to a parent. Noncontrolling interests of DCT primarily represent limited partnership interests in the Operating Partnership and equity interests held by third party partners in consolidated real estate investments.

Operating Partnership

Equity interests in the Operating Partnership held by third-parties and LTIP Units, as defined in “Note 8 – Stockholders’ Equity of DCT and Partners’ Capital of the Operating Partnership,” are classified as permanent equity of the Operating Partnership and as noncontrolling interests of DCT in the Consolidated Balance Sheets.

Note 8 – Stockholders’ Equity of DCT and Partners’ Capital of the Operating Partnership

DCT

Common Stock

As of March 31, 2018, approximately 94.1 million shares of common stock were issued and outstanding.

On September 10, 2015, we registered a continuous equity offering program whereby the Company may issue 5.0 million shares of common stock, at a par value of $0.01 per share, from time-to-time through September 10, 2018 in “at-the-market” offerings or certain other transactions. During the three months ended March 31, 2018, we issued approximately 0.2 million shares of common stock through the continuous equity offering program, at a weighted average price of $57.36 per share for proceeds of approximately $10.8 million, net of offering costs. We used the proceeds for general corporate purposes, including funding developments and redevelopments. As of March 31, 2018, approximately 0.5 million shares of common stock remain available to be issued under the current offering.

During the three months ended March 31, 2018 and 2017, we issued approximately 28,000 and 31,000 shares of common stock in each corresponding period related to vested shares of restricted stock.

Operating Partnership

OP Units

For each share of common stock issued by DCT, the Operating Partnership issues a corresponding OP Unit to DCT in exchange for the contribution of the proceeds from the stock issuances.

As of March 31, 2018, and December 31, 2017, DCT owned approximately 96.7% and 96.6%, respectively, of the outstanding equity interests in the Operating Partnership. The remaining common partnership interests in the Operating Partnership were owned by executives of the Company and non-affiliated limited partners.

DCT holds its interests through both general and limited partner units. The Partnership Agreement stipulates the general partner shall at all times own a minimum of 1.0% of all outstanding OP Units. As a result, each reporting period certain of DCT's limited partner units are converted to general partner units to satisfy this requirement as illustrated in the Consolidated Statement of Changes in Capital.

Limited partners have the right to require the Company to redeem all or a portion of the OP Units held by the limited partner at a redemption price equal to and in the form of the Cash Amount (as defined in the Partnership Agreement) provided that such OP Units have been outstanding for at least one year. The Company may, in its sole discretion, purchase the OP Units by paying to the limited partner either the Cash Amount or the REIT Shares Amount (generally one share of DCT's common stock for each OP Unit), as defined in the Partnership Agreement.

During the three months ended March 31, 2018, approximately 31,000 OP Units were redeemed, which were all in shares of DCT common stock. During the three months ended March 31, 2017, approximately 56,000 OP Units were redeemed for approximately $0.8 million in cash and approximately 40,000 shares of DCT common stock. The OP Unit redemptions exclude LTIP Unit redemptions, see "LTIP Units" below for a summary of LTIP Unit redemptions.

As of March 31, 2018, and December 31, 2017, there were approximately 3.2 million outstanding OP Units held by entities other than DCT and redeemable, with an aggregate redemption value of approximately $182.6 million and $191.0 million based on the $56.34 and $58.78 per share closing price of DCT's common stock on March 31, 2018 and December 31, 2017, respectively. As of March 31, 2018 and December 31, 2017, included in OP Units were approximately 0.8 million vested LTIP Units issued under our Long-Term Incentive Plan, as amended.

Equity-Based Compensation

On October 10, 2006, the Company established the Long-Term Incentive Plan, as amended, to grant restricted stock, stock options and other awards to our personnel and directors, as defined in the plan. Awards granted under this plan are measured at fair value on the grant date and amortized to compensation expense on a straight-line basis over the service period during which the awards vest. Such expense is included in "General and administrative" expense in our Consolidated Statements of Operations.

Restricted Stock

Holders of restricted stock have voting rights and rights to receive dividends equally along with common shares. Restricted stock may not be sold, assigned, transferred, pledged or otherwise disposed of and is subject to a risk of forfeiture prior to the expiration of the applicable vesting period. Restricted stock is recorded at fair value on the date of grant, based on the closing price of our common stock, and amortized to compensation expense on a straight-line basis over the service period during which the stock vests. Restricted stock generally vests ratably over a period of four or five years, depending on the grant. During the three months ended March 31, 2018, we granted approximately 29,000 shares of restricted stock to certain officers and employees at the weighted average fair market value of $58.05 per share.

LTIP Units

Pursuant to the Long-Term Incentive Plan, as amended, the Company may grant limited partnership interests in the Operating Partnership called LTIP Units. LTIP Units generally vest ratably over a period of four to five years, depending on the grant. In addition to vesting, the implied or actual value of DCT common stock or OP Units per share/unit must be greater than the grant date fair value of the LTIP Units to be redeemable, which is a based on a conversion ratio. As such, vested LTIP Units may be redeemed by the Company in cash or in shares of DCT common stock, at the discretion of the Company, for a maximum of a one-for-one basis with common shares based on the conversion ratio, subject to certain restrictions of the Partnership Agreement. LTIP Units receive distributions equally along with common shares. LTIP Unit equity compensation is amortized to compensation expense over the service period during which the units vest.

During the three months ended March 31, 2018, approximately 0.1 million LTIP Units were granted to certain senior executives, which vest over a four year period with fair value per LTIP Unit of $54.29 which totals approximately $7.2 million at the date of grant as determined by a lattice-binomial option-pricing model based on a Monte Carlo simulation using a weighted average volatility factor of 18%, a weighted average risk-free interest rate of 2.51% and an assumed holding period of 5 years. During the three months ended March 31, 2018, approximately 118,000 vested LTIP Units were converted into approximately 118,000 shares of DCT common stock and approximately 21,000 vested LTIP Units were redeemed for approximately $1.2 million in cash. As of March 31, 2018, approximately 1.2 million LTIP Units were outstanding.

Note 9 – Net Earnings per Share/Unit

We use the two-class method of computing net earnings per common share/unit which is an earnings allocation formula that determines net earnings per share/unit for common stock/unit and any participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings. Under the two-class method, net earnings per common share/unit are computed by dividing the sum of distributed earnings to common stockholders/OP Unitholders and undistributed earnings allocated to common stockholders/OP Unitholders by the weighted average number of common shares/units outstanding for the period.

A participating security is defined by GAAP as an unvested share-based payment award containing non-forfeitable rights to dividends and must be included in the computation of earnings per share/unit pursuant to the two-class method. Nonvested restricted stock, phantom stock and LTIP Units are considered participating securities as these share-based awards contain non-forfeitable rights to dividends irrespective of whether the awards ultimately vest or expire.

DCT

The following table presents the computation of basic and diluted weighted average common shares outstanding (in thousands):

	For the Three Months Ended March 31,	
	2018	2017
Denominator		
Weighted average common shares outstanding – basic	93,812	91,751
Effect of dilutive securities:		
Stock options	25	133
Weighted average common shares outstanding – diluted	93,837	91,884

Operating Partnership

The following table presents the computation of basic and diluted weighted average OP Units outstanding (in thousands):

	For the Three Months Ended March 31,	
	2018	2017
Denominator		
Weighted average OP Units outstanding – basic	97,135	95,416
Effect of dilutive securities:		
Stock options	25	133
Weighted average OP Units outstanding – diluted	97,160	95,549

DCT and the Operating Partnership
Potentially Dilutive Shares
For the three months ended March 31, 2018 and 2017, DCT excluded from net earnings per diluted share the weighted average common share equivalents related to 3.3 million and 3.7 million OP Units, respectively, because their effect would be anti-dilutive.

Note 10 – Segment Information
The Company's segments are based on our internal reporting of operating results used to assess performance based on our properties' geographical markets. Our markets are aggregated into three reportable regions or segments, East, Central and West, which are based on the geographical locations of our properties. Management considers rental revenues and property net operating income ("NOI") aggregated by segment to be the appropriate way to analyze our performance.
The following table presents our total assets, net of accumulated depreciation and amortization, by segment (in thousands):

	As of March 31, 2018	As of December 31, 2017
Segments:		
East assets	$1,086,894	$ 1,125,085
Central assets	1,195,633	1,187,663
West assets	1,597,232	1,582,436
Total segment net assets	3,879,759	3,895,184
Non-segment assets:		
Non-segment cash and cash equivalents	12,371	10,522
Other non-segment assets[(1)]	163,711	104,966
Total assets	$4,055,841	$ 4,010,672

(1) Other non-segment assets primarily consist of investments in and advances to unconsolidated joint ventures, deferred loan costs, other receivables, restricted cash and other assets.

The following table presents the rental revenues of our segments and a reconciliation of our segment rental revenues to our reported consolidated total revenues (in thousands):

	For the Three Months Ended March 31,	
	2018	2017
East	$31,389	$31,661
Central	37,186	34,598
West	40,848	39,165
Rental revenues	109,423	105,424
Institutional capital management and other fees	384	472
Total revenues	$109,807	$105,896

The following table presents a reconciliation of our reported "Net income attributable to common stockholders" to our property NOI and property NOI of our segments (in thousands):

	For the Three Months Ended March 31,	
	2018	2017
Net income attributable to common stockholders	$48,823	$14,959
Net income attributable to noncontrolling interests of DCT Industrial Trust Inc.	1,731	597
Net income attributable to OP Unitholders	$50,554	$15,556
Net income attributable to noncontrolling interests of the Operating Partnership	388	233
Institutional capital management and other fees	(384)	(472)
Gain on dispositions of real estate interests	(32,190)	(26)
Real estate related depreciation and amortization	41,232	41,605
Casualty loss (gain)	5	(270)
General and administrative expense	7,464	7,192
Equity in earnings of unconsolidated joint ventures, net	(1,077)	(1,516)
Interest expense	16,050	16,755
Interest and other (income) expense	(34)	5
Impairment loss on land	371	—
Income tax expense and other taxes	81	134
Property NOI[1]	$82,460	$79,196
East	$24,227	$24,218
Central	26,367	24,510
West	31,866	30,468
Property NOI[1]	$82,460	$79,196

(1) Property NOI is defined as rental revenues, which includes expense reimbursements, less rental expenses and real estate taxes, and excludes institutional capital management fees, depreciation, amortization, casualty gains and losses, gain on dispositions of real estate interests, impairment, general and administrative expenses, equity in earnings (loss) of unconsolidated joint ventures, interest expense, interest and other income and income tax expense and other taxes. We consider property NOI to be an appropriate supplemental performance measure because property NOI reflects the operating performance of our properties and excludes certain items that are not considered to be controllable in connection with the management of the properties such as amortization, depreciation, impairment, interest expense, interest and other income, income tax expense and other taxes and general and administrative expenses. However, property NOI should not be viewed as an alternative measure of our overall financial performance since it excludes expenses which could materially impact our results of operations. Further, our property NOI may not be comparable to that of other real estate companies, as they may use different methodologies for calculating property NOI. Therefore, we believe net income, as defined by GAAP, to be the most appropriate measure to evaluate our overall financial performance.

Note 11 – Assets Held for Sale

As of March 31, 2018, five properties in our Central operating segment were classified as held for sale and are reported at the lower of carrying value or estimated fair value less estimated cost to sell. We completed the sales of these properties in April 2018.

Note 12 – Subsequent Events

GAAP requires an entity to disclose events that occur after the balance sheet date but before financial statements are issued or are available to be issued ("subsequent events") as well as the date through which an entity has evaluated subsequent events. There are two types of subsequent events. The first type consists of events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, ("recognized subsequent events"). The second type consists of events that provide evidence about conditions that did not exist at the date of the balance sheet but arose subsequent to that date ("nonrecognized subsequent events").

Proposed Merger with Prologis, Inc.

On April 29, 2018, the Company and the Operating Partnership entered into an Agreement and Plan of Merger (the "Merger Agreement") with Prologis, Inc. ("Prologis") and Prologis, L.P. ("PLDOP"), pursuant to which the Company will be merged with and into Prologis, and the Operating Partnership will be merged into PLDOP. The merger consideration will be approximately $8.4 billion in a stock-for-stock transaction, including the assumption of debt. Under the terms of the Merger Agreement, DCT stockholders and OP Unitholders will receive 1.02 Prologis shares and limited partnership interests in PLDOP, respectively, for each DCT share or OP Unit they own.

The boards of directors of both companies have unanimously approved the transaction. The transaction, which is currently expected to close in the third quarter of 2018, is subject to the approval of DCT stockholders and other customary closing conditions.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

We make statements in this report that are considered "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, which are usually identified by the use of words such as "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "seeks," "should," "will," and variations of such words or similar expressions. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and are including this statement for purposes of complying with those safe harbor provisions. These forward-looking statements reflect our current views about our plans, intentions, expectations, strategies and prospects, which are based on the information currently available to us and on assumptions we have made. Although we believe that our plans, intentions, expectations, strategies and prospects as reflected in or suggested by those forward-looking statements are reasonable, we can give no assurance that the plans, intentions, expectations or strategies will be attained or achieved. Furthermore, actual results may differ materially from those described in the forward-looking statements and will be affected by a variety of risks and factors that are beyond our control including, without limitation:

- risks associated with our ability to consummate the merger and the timing and closing of the merger;
- national, international, regional and local economic conditions;
- the general level of interest rates and the availability of capital;
- the competitive environment in which we operate;
- real estate risks, including fluctuations in real estate values and the general economic climate in local markets and competition for tenants in such markets;
- decreased rental rates or increasing vacancy rates;
- defaults on or non-renewal of leases by tenants;
- acquisition and development risks, including failure of such acquisitions and development projects to perform in accordance with projections;
- the timing of acquisitions, dispositions and development;
- natural disasters such as fires, floods, tornadoes, hurricanes and earthquakes;
- energy costs;
- the terms of governmental regulations that affect us and interpretations of those regulations, including the costs of compliance with those regulations, changes in real estate and zoning laws and increases in real property tax rates;
- financing risks, including the risk that our cash flows from operations may be insufficient to meet required payments of principal, interest and other commitments;
- lack of or insufficient amounts of insurance;
- litigation, including costs associated with prosecuting or defending claims and any adverse outcomes;
- the consequences of future terrorist attacks or civil unrest;
- environmental liabilities, including costs, fines or penalties that may be incurred due to necessary remediation of contamination of properties presently owned or previously owned by us; and
- other risks and uncertainties detailed in the section entitled "Risk Factors."

In addition, our current and continuing qualification as a real estate investment trust, or REIT, involves the application of highly technical and complex provisions of the Internal Revenue Code of 1986, or the Code, and depends on our ability to meet the various requirements imposed by the Code through actual operating results, distribution levels and diversity of stock ownership.

We assume no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. The reader should carefully review our financial statements and the notes thereto, as well as the section entitled "Risk Factors" in this report.

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Overview

DCT Industrial Trust Inc. is a leading industrial real estate company specializing in the ownership, acquisition, development, leasing and management of bulk-distribution and light-industrial properties located in high-demand distribution markets in the United States. DCT's actively managed portfolio is strategically located near population centers and well-positioned to take advantage of market dynamics. As used herein, the terms “Company,” “we,” “our” and “us” refer to DCT Industrial Trust Inc. and its subsidiaries, including its operating partnership, DCT Industrial Operating Partnership LP. When we use the term “DCT” or “DCT Industrial,” we are referring to DCT Industrial Trust Inc. by itself, and not including any of its subsidiaries, and when we use the term “Operating Partnership,” we are referring to DCT Industrial Operating Partnership LP by itself, and not including any of its subsidiaries.

DCT was formed as a Maryland corporation in April 2002 and has elected to be treated as a real estate investment trust, or REIT, for U.S. federal income tax purposes. We are structured as an umbrella partnership REIT under which substantially all our current and future business is, and will be, conducted through a majority owned and controlled subsidiary, DCT Industrial Operating Partnership LP, a Delaware limited partnership, for which DCT is the sole general partner. DCT owns properties through the Operating Partnership and its subsidiaries. As of March 31, 2018, DCT owned approximately 96.7% of the outstanding equity interests in the Operating Partnership.

Proposed Merger with Prologis, Inc.

On April 29, 2018, the Company and the Operating Partnership entered into a Merger Agreement with Prologis and PLDOP, pursuant to which the Company will be merged with and into Prologis (the “Company Merger”), and the Operating Partnership will be merged with and into PLDOP (the “Partnership Merger” and, together with the Company Merger, the “Mergers”). The merger consideration will be approximately $8.4 billion in a stock-for-stock transaction, including the assumption of debt. Under the terms of the Merger Agreement, DCT stockholders and OP Unitholders will receive 1.02 Prologis shares and limited partnership interests in PLDOP, respectively, for each DCT share or OP Unit they own.

The boards of directors of both companies have unanimously approved the transaction. The transaction, which is currently expected to close in the third quarter of 2018, is subject to the approval of DCT stockholders and other customary closing conditions.

As of March 31, 2018, the Company owned interests in approximately 73.7 million square feet of properties leased to approximately 840 customers, including:

- 63.3 million square feet comprising 393 consolidated operating properties, including five properties totaling 101,000 square feet classified as held for sale, that were 97.7% occupied;
- 1.7 million square feet comprising six consolidated properties developed by DCT which are shell-construction complete and in lease-up;
- 0.1 million square feet comprising one consolidated property under redevelopment;
- 1.0 million square feet comprising four consolidated value-add acquisitions; and
- 7.6 million square feet comprising 21 unconsolidated properties that were 99.2% occupied and which we operated on behalf of one institutional capital management partner and an unconsolidated joint venture.

In addition, the Company has 20 projects under construction and 13 projects in pre-development. See “Notes to Consolidated Financial Statements, Note 3 – Investment in Properties” for further details related to our development activity.

Our primary business objectives are to maximize long-term growth in Funds From Operations, or “FFO”, as defined on page 42, net asset value of our portfolio and total shareholder return. In our pursuit of these long-term objectives, we seek to:

- maximize cash flows from existing properties;
- deploy capital into quality development and acquisition opportunities which meet our asset, location and financial criteria; and

- recycle capital by selling assets that no longer fit our investment criteria and reinvesting the proceeds into higher growth opportunities.

Outlook

We seek to maximize long-term earnings growth per share and shareholder value primarily through increasing cash flow at existing properties and developing and acquiring high-quality properties with attractive operating income and value growth prospects. Fundamentals for industrial real estate continue to improve in response to general improvement in the economy as well as trends that particularly favor industrial assets, including the growth of e-commerce and U.S. based manufacturing. We expect moderate economic growth to continue in 2018, which we expect to result in continued positive demand for warehouse space as companies expand and upgrade their distribution and production platforms.

In response to positive net absorption and lower market vacancy levels, rental rates are increasing in all of our markets. Rental concessions, such as free rent, remain at historically low levels. Consistent with recent experience and based on current market conditions, we expect average net effective rental rates on new leases signed during the remainder of 2018 to be higher than the rates on expiring leases.

New development, including speculative development, is present in most markets in response to strong tenant demand for high-quality space. However, construction remains rational in relation to net absorption in most markets and below historical peak levels. We expect that the operating environment will continue to be favorable for lessors given our positive outlook for market occupancy levels and rental rate growth.

We expect same-store net operating income to be higher in 2018 than it was in 2017, primarily as a result of the impact of increasing rental rates on leases signed in 2016 and 2017 compared to expiring leases.

In terms of capital investment, we will continue to pursue selective development of new buildings and the opportunistic acquisition of buildings in markets where we perceive demand and market rental rates will provide attractive financial returns.

We anticipate continuing to selectively dispose of non-strategic assets to fund our investment in developments and acquisitions in an effort to enhance long-term growth in our net asset value, earnings and cash flows as well as to improve the overall quality of our portfolio.

We anticipate having sufficient liquidity to fund our operating expenses, including costs to maintain our properties and distributions, though we may finance investments, including acquisitions and developments, with the issuance of new common shares, proceeds from asset sales or through additional borrowings. Please see “Liquidity and Capital Resources” for additional discussion.

Inflation

The U.S. economy has experienced low inflation over the past several years and as a result, inflation has not had a significant impact on our business. Moreover, most of our leases require the customers to pay their share of the cost to operate our properties, including real estate taxes, insurance and common area maintenance, thereby reducing our exposure to increases in costs and operating expenses resulting from inflation. In addition, the majority of our leases expire within five years, which enables us to replace existing leases with new leases at then-existing market rates.

Summary of Significant Transactions and Activities for the Three Months Ended March 31, 2018

- Acquisition Activities

During the three months ended March 31, 2018, we acquired one building totaling approximately 37.0 thousand square feet located in our Northern California market for a total purchase price of approximately $7.1 million and a projected investment of $8.5 million. The building is classified as a Value-Add Acquisition as it was acquired via a sale-leaseback transaction with a short lease that expires on August 31, 2018.

- Development Activities

As of March 31, 2018, we completed shell-construction on six buildings in our Chicago, Dallas, Denver and Northern California markets totaling 1.7 million square feet with cumulative costs to date of approximately $106.8 million and a total projected investment of approximately $122.8 million. These properties are 23.0% leased and 15.2% occupied based on weighted average square feet as of March 31, 2018.

Also, as of March 31, 2018, we have 20 projects under construction totaling 4.2 million square feet with cumulative costs to date of approximately $213.3 million and a total projected investment of approximately $360.7 million. These projects are 15.7% pre-leased.

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- Additionally, during the three months ended March 31, 2018, we acquired 9.2 acres of land for development in our Southern California market for approximately $7.3 million.

The table below reflects a summary of development activities as of March 31, 2018, (in thousands, except acres and number of buildings):

Project	Market	Acres	Number of Buildings	Square Feet	Percent-age Owned[1]	Cumulative Costs at 3/31/2018	Projected Investment	Completion Date[2]	Percent-age Leased[3]
Consolidated Development Activities:									
Development Projects in Lease-Up									
DCT Stockyards Industrial Center	Chicago	10	1	167	100 %	$ 14,266	$ 17,071	Q4-2017	38 %
DCT Greenwood	Chicago	8	1	140	100 %	10,073	11,671	Q4-2017	0 %
DCT DFW Trade Center	Dallas	10	1	112	100 %	9,328	9,790	Q3-2017	48 %
DCT Miller Road	Dallas	17	1	270	100 %	16,339	16,368	Q3-2017	100 %
DCT Summit Distribution Center	Denver	12	1	168	100 %	12,053	13,856	Q4-2017	0 %
DCT Arbor Avenue	Northern California	40	1	796	100 %	44,720	54,085	Q1-2018	0 %
	Sub Total	97	6	1,653	100 %	$ 106,779	$ 122,841		23 %
Development Projects Under Construction									
DCT River West Distribution Center Phase II	Atlanta	60	1	926	100 %	$ 7,784	$ 46,688	Q4-2018	0 %
DCT Terrapin Commerce Center Building I	Baltimore/Wash. D.C.	13	1	126	100 %	10,533	14,762	Q2-2018	0 %
DCT Terrapin Commerce Center Building II	Baltimore/Wash. D.C.	10	1	94	100 %	7,596	10,900	Q2-2018	0 %
2560 White Oak Expansion	Chicago	4	0	54	100 %	2,999	5,014	Q3-2018	100 %
DCT Freeport West Building II	Dallas	7	1	111	100 %	4,122	10,496	Q3-2018	0 %
DCT Freeport West Building III	Dallas	6	1	83	100 %	3,029	7,962	Q3-2018	0 %
DCT Rail Center 225, B	Houston	13	1	222	100 %	10,132	15,650	Q2-2018	100 %
DCT Petroport Industrial Park Building I	Houston	12	1	89	100 %	5,512	6,014	Q2-2018	100 %

DCT Petroport Industrial Park Building II	Houston	22	1	163	100	%	9,324	10,129	Q2-2018	100	%
DCT Commerce Center Building D	Miami	8	1	137	100	%	13,843	15,998	Q2-2018	0	%
DCT Commerce Center Building E	Miami	10	1	162	100	%	20,452	20,705	Q2-2018	83	%
Seneca Commerce Center Building I	Miami	13	1	222	90	%	15,436	22,080	Q2-2018	0	%
Seneca Commerce Center Building IV	Miami	4	1	62	90	%	4,918	8,271	Q3-2018	0	%
DCT Midline Commerce Center	New Jersey	34	1	440	100	%	24,398	35,952	Q3-2018	0	%
DCT Williams Corporate Center	Northern California	4	1	75	100	%	11,662	14,778	Q2-2018	0	%
DCT Airport Distribution Center Building E	Orlando	6	1	102	100	%	2,763	7,484	Q3-2018	0	%
DCT Rockline Commerce Center Building I	Pennsylvania	8	1	112	100	%	7,922	9,310	Q2-2018	0	%
DCT Rockline Commerce Center Building II	Pennsylvania	17	1	224	100	%	11,058	18,213	Q2-2018	0	%
Blair Logistics Center Building A	Seattle	27	1	545	100	%	29,699	49,890	Q3-2018	0	%
Hudson Distribution Center	Seattle	15	1	288	100	%	10,101	30,394	Q4-2018	0	%
	Sub Total	293	19	4,237	99	%	$ 213,283	$ 360,690		16	%
	Total	390	25	5,890	99	%	$ 320,062	$ 483,531		18	%

(1) Percentage owned is based on equity ownership weighted by square feet.

(2) The completion date represents the date of building shell-construction completion or estimated date of shell-construction completion.

(3) Percentage leased is computed as of the date the financial statements were available to be issued.

•Disposition Activities

•During the three months ended March 31, 2018, we sold six consolidated operating properties totaling approximately 1.9 million square feet from our Atlanta, Charlotte, Memphis, Northern California and Phoenix markets to third-parties for gross proceeds of approximately $100.9 million. We recognized gains of approximately $32.2 million

on the disposition of these properties.

- Debt Activity

As of March 31, 2018, we had $264.0 million outstanding and $134.1 million available under our $400.0 million senior unsecured revolving credit facility, net of two letters of credit totaling $1.9 million.

- Equity Activity

On September 10, 2015, we registered a continuous equity offering program whereby the Company may issue 5.0 million shares of common stock, at a par value of $0.01 per share. During the three months ended March 31, 2018, we issued approximately 0.2 million shares of common stock through the continuous equity offering program, at a weighted average price of $57.36 per share for proceeds of approximately $10.8 million, net of offering costs. The proceeds from the sale of shares of common stock were contributed to the Operating Partnership for an equal number of OP units in the Operating Partnership and were used for general corporate purposes, including funding developments and redevelopments. As of March 31, 2018, approximately 0.5 million shares of common stock remain available to be issued under the current offering.

- Leasing Activity

During the three months ended March 31, 2018, we signed a total of 46 leases comprising 2.5 million square feet of which 15 leases totaling 1.1 million square feet included concessions of $1.3 million primarily related to free rent periods.

The following table provides a summary of our leasing activity for the three months ended March 31, 2018:

	Number of Leases Signed	Square Feet Signed[1]	Net Effective Rent Per Square Foot[2]	Straight-Line Basis Rent Growth[3]	Weighted Average Lease Term[4]	Turnover Costs Per Square Foot[5]
FIRST QUARTER 2018		(in thousands)			(in months)	
New	13	658	N/A	35.9 %	56	$ 5.55
Renewal	25	1,475	N/A	34.6 %	52	1.82
Developments, redevelopments and value-add acquisitions	8	412	N/A	N/A	77	N/A
Total/Weighted Average	46	2,545	$ 5.65	35.0 %	57	$ 2.97
Weighted Average Retention[6]	81.6 %					

(1) Reflects leases executed during the periods presented. Excludes leases with a term shorter than one year.

(2) Net effective rent is the average monthly base rental income over the term of the lease, calculated on a straight-line basis.

(3) Straight-line basis rent growth reflects the percentage change in net effective rent of the lease executed during the period compared to the net effective rent of the prior lease on the same space (holdover payments are excluded). All net effective rents are compared on a net basis. Net effective rent under gross or similar type leases are converted to net effective rent based on an estimate of the applicable recoverable expenses.

(4) Assumes no exercise of lease renewal options, if any.

(5) Turnover costs are comprised of the costs incurred or capitalized for improvements of vacant and renewal spaces, as well as the commissions paid and costs capitalized for leasing transactions. These costs represent the total turnover costs estimated upon execution to be incurred associated with the leases signed during the period and may not ultimately reflect the actual expenditures. The estimated tenant improvement and leasing costs associated with leases signed on developments, Redevelopments and Value-Add Acquisitions are already included in the total projected costs for those investments and are therefore excluded from the leasing statistics.

(6) Represents the percentage of customers renewing their respective leases weighted by average square feet. Excludes leases signed on developments, Redevelopments and Value-Add Acquisitions.

Customer Diversification

As of March 31, 2018, there were no customers that occupied more than 3.5% of our consolidated properties based on annualized base rent, which is calculated as the monthly contractual base rent (cash basis) per the terms of the lease, as of the period end, multiplied by 12. The following table presents our 10 largest customers, based on annualized base rent as of March 31, 2018, who occupied a combined 11.0 million square feet, or 16.7%, of our consolidated properties and 18.6% of annualized base rent.

Customer	Percentage of Annualized Base Rent		Percentage of Square Feet	
Amazon.com, Inc.	3.5	%	2.3	%
Distributions Alternatives, Inc.	3.2	%	3.3	%
FedEx Corporation	2.9	%	1.4	%
United Parcel Service, Inc.	1.7	%	1.6	%
Stanley Black & Decker, Inc.	1.5	%	1.5	%
Geodis	1.5	%	1.9	%
Deutsche Post DHL Group	1.1	%	1.1	%
The J. M. Smucker Company	1.1	%	1.6	%
Schenker, Inc.	1.1	%	0.8	%
Kellogg Company	1.0	%	1.2	%
Total	18.6	%	16.7	%

Although base rent is supported by long-term lease contracts, customers who file bankruptcy generally have the legal right to reject any or all of their leases. In the event that a customer with a significant number of leases in our properties enters bankruptcy and cancels its leases we could experience a reduction in our cash flow from revenues and an increase in allowance for doubtful accounts receivable.

We frequently monitor the financial condition of our customers. We communicate regularly with those customers that have been delinquent or are in bankruptcy. We are not currently aware of any significant financial difficulties of any tenants that would cause a material reduction in our revenues.

Results of Operations

Summary of the three months ended March 31, 2018 compared to the same period ended March 31, 2017

We are a leading industrial real estate company specializing in the ownership, acquisition, development, leasing and management of bulk-distribution and light-industrial properties located in high-demand distribution markets in the United States. Our actively managed portfolio is strategically located near population centers and well-positioned to take advantage of market dynamics. As of March 31, 2018, the Company owned interests in or had under development approximately 73.7 million square feet of properties leased to approximately 840 customers, including 4.6 million square feet managed on behalf of one institutional capital management joint venture partner and 3.0 million square feet in an unconsolidated joint venture. As of March 31, 2018, we consolidated 393 operating properties, which included five consolidated operating properties classified as held for sale, and one redevelopment property, six development properties and four value-add acquisitions. As of March 31, 2017, we consolidated 398 operating properties, three redevelopment properties, four development properties and three value-add acquisitions.

Comparison of the three months ended March 31, 2018 compared to the same period ended March 31, 2017

Our quarterly same-store portfolio includes all consolidated stabilized acquisitions acquired before January 1, 2017 and all consolidated development and redevelopment properties and value-add acquisitions stabilized prior to January 1, 2017. Once a property is included in our quarterly same-store portfolio, it remains until it is subsequently disposed of or placed into redevelopment. We consider our quarterly same-store portfolio to be a useful measure to improve comparability between periods by excluding the effects of changes in our consolidated operating portfolio period over period. Developments and redevelopments are deemed to be stabilized upon the earlier of achieving 90% occupancy or 12 months after shell-construction completion. Value-add acquisitions are deemed to be stabilized i) if the property acquired is less than 75% occupied upon acquisition, the property will stabilize upon the earlier of achieving 90% occupancy or 12 months from the acquisition date, or ii) if the property is acquired with known move-outs within 24 months of the acquisition date the property will stabilize upon the earlier of achieving 90% occupancy after the known move-outs have occurred or 12 months after the known move-outs have occurred. All other acquisitions are deemed stabilized upon acquisition. Non-same-store operating properties include properties not meeting the quarterly same-store criteria and exclude development and redevelopment properties and value-add acquisitions that are not stabilized or ready for their intended use.

For the three months ended March 31, 2018, we had 378 properties classified in our quarterly same-store portfolio comprising 60.1 million square feet and 26 classified as non-same-store, which includes 15 operating properties, six development properties, one redevelopment property and four value-add acquisitions that were not stabilized. A discussion of these changes follows the table below.

The following table presents the changes in rental revenues, rental expenses and real estate taxes, property net operating income ("NOI"), other revenue and other income, and other expenses for the three months ended March 31, 2018, compared to the three months ended March 31, 2017 (in thousands):

	For the Three Months Ended March 31,			
	2018	2017	$ Change	Percent Change
Rental Revenues				
Quarterly same-store portfolio	$101,524	$99,017	$2,507	2.5 %
Non-same-store operating properties	6,939	5,769	1,170	20.3 %
Developments, redevelopments and value-add acquisitions	960	638	322	50.5 %
Total rental revenues	109,423	105,424	3,999	3.8 %
Rental Expenses and Real Estate Taxes				
Quarterly same-store portfolio	25,066	24,438	628	2.6 %
Non-same-store operating properties	1,515	1,559	(44)	(2.8)%
Developments, redevelopments and value-add acquisitions	382	231	151	65.4 %
Total rental expenses and real estate taxes	26,963	26,228	735	2.8 %
Property NOI[(1)]				
Quarterly same-store portfolio	76,458	74,579	1,879	2.5 %
Non-same-store operating properties	5,424	4,210	1,214	28.8 %
Developments, redevelopments and value-add acquisitions	578	407	171	42.0 %
Total property NOI	82,460	79,196	3,264	4.1 %
Other Revenue and Other Income				
Institutional capital management and other fees	384	472	(88)	(18.6)%
Casualty gain	—	270	(270)	— %
Equity in earnings of unconsolidated joint ventures, net	1,077	1,516	(439)	(29.0)%
Gain on dispositions of real estate interests	32,190	26	32,164	— %
Interest and other income (expense)	34	(5)	39	780.0 %
Total other revenue and other income	33,685	2,279	31,406	1,378.1 %
Other Expenses				
Real estate related depreciation and amortization	41,232	41,605	(373)	(0.9)%
Interest expense	16,050	16,755	(705)	(4.2)%
General and administrative	7,464	7,192	272	3.8 %
Casualty loss	5	—	5	— %
Impairment on non-depreciated assets	371	—	371	— %
Income tax expense and other taxes	81	134	(53)	(39.6)%
Total other expenses	65,203	65,686	(483)	(0.7)%
Net income attributable to noncontrolling interests of the Operating Partnership	(388)	(233)	(155)	(66.5)%
Net income attributable to OP Unitholders	$50,554	$15,556	$34,998	225.0 %
Net income attributable to noncontrolling interests of DCT Industrial Trust Inc.	(1,731)	(597)	(1,134)	(189.9)%
Net income attributable to common stockholders	$48,823	$14,959	$33,864	226.4 %

(1) Property NOI is defined as rental revenues, which includes expense reimbursements, less rental expenses and real estate taxes, and excludes institutional capital management fees, depreciation, amortization, casualty and involuntary conversion gain (loss), impairment, general and administrative expenses, equity in earnings (loss) of unconsolidated joint ventures, interest expense, interest and other income and income tax (benefit) expense and other taxes. We consider property NOI to be an appropriate supplemental performance measure because property NOI reflects the operating performance of our properties and excludes certain items that are not considered to be controllable in connection with the management of the properties such as amortization, depreciation, impairment, interest expense, interest and other income, income tax expense and other taxes and general and administrative expenses. However, property NOI should not be viewed as an alternative measure of our overall financial performance since it excludes expenses which could materially impact our results of operations. Further, our property NOI may not be comparable to that of other real estate companies, as they may use different methodologies for calculating property NOI. Therefore, we believe net income, as defined by GAAP, to be the most appropriate measure to evaluate our overall financial performance. For a reconciliation of our NOI to our reported "Net income attributable to common stockholders" see "Notes to Consolidated Financial Statements, Note 10 – Segment Information."

Rental Revenues

Rental revenues, which are comprised of base rent, straight-line rent, amortization of above and below market rent intangibles, tenant recovery income, other rental income and early lease termination fees, increased by $4.0 million for the three months ended March 31, 2018 compared to the same period in 2017, primarily due to the following changes:

- $2.5 million increase in total revenues in our quarterly same-store portfolio primarily due to the following:
  - $4.5 million increase in base rent primarily resulting from increased rental rates and a 60 basis point increase in average occupancy period over period; and
  - $0.8 million increase in operating expense recoveries related to increases in common area maintenance recoveries of $0.5 million due to higher average occupancy and real estate tax recoveries of $0.3 million; which was offset by
  - $2.2 million decrease in straight-line rental revenue; and
  - $0.6 million decrease in other revenue primarily driven by early lease termination revenue.
- $1.2 million increase in total revenues in our non-same-store portfolio, of which $5.5 million is attributed to two acquisitions and 12 development, redevelopment and value-add properties placed into our operating portfolio since January 1, 2017, offset in part by a $4.2 million decrease attributed to 17 consolidated property dispositions since January 1, 2017; and
- $0.3 million increase in developments, redevelopments and value-add acquisitions total revenues primarily attributed to three development properties that were not stabilized at 57.5% occupancy as of March 31, 2018.

The following table presents the various components of our consolidated rental revenues (in thousands):

	For the Three Months Ended March 31,			
	2018	2017	$ Change	Percent Change
Base rent	$79,132	$73,971	$5,161	7.0 %
Straight-line rent	1,634	3,392	(1,758)	(51.8)%
Amortization of above and below market rent intangibles	740	732	8	1.1 %
Tenant recovery income	26,889	25,872	1,017	3.9 %
Other	685	956	(271)	(28.3)%
Revenues related to early lease terminations	343	501	(158)	(31.5)%
Total rental revenues	$109,423	$105,424	$3,999	3.8 %

Rental Expenses and Real Estate Taxes

Rental expenses and real estate taxes, which are comprised of insurance, common area maintenance, utilities, property management fees and other rental expenses, and real estate taxes, increased by $0.7 million for the three months ended March 31, 2018 compared to the same period in 2017, primarily due to the following:

- $0.6 million increase in rental expenses and real estate taxes period over period in our quarterly same-store portfolio primarily due to increased snow removal costs in our Baltimore/Washington, Chicago, Indianapolis and New Jersey markets; and
- $0.2 million increase in rental expenses and real estate taxes from our development and redevelopment properties and value-add acquisitions that were 50.1% occupied as of March 31, 2018.

The following table presents the various components of our rental expenses and real estate taxes (in thousands):

	For the Three Months Ended March 31,			
	2018	2017	$ Change	Percent Change
Real estate taxes	$16,724	$16,766	$ (42)	(0.3)%
Insurance	884	1,172	(288)	(24.6)%
Common area maintenance	4,725	4,068	657	16.2 %
Utilities	1,065	1,003	62	6.2 %
Property management fees	2,865	2,670	195	7.3 %
Other	700	549	151	27.5 %
Total rental expenses and real estate taxes	$26,963	$26,228	$ 735	2.8 %

Other Revenue and Other Income

Total other revenue and other income increased $31.4 million for the three months ended March 31, 2018 compared to the same period in 2017, primarily due to the following:

- $32.2 million increase in gain on dispositions of real estate interests primarily related to the disposition of six consolidated operating properties totaling approximately 1.9 million square feet from our Atlanta, Charlotte, Memphis, Northern California and Phoenix markets during 2018 with no corresponding activity during the same period in 2017; partially offset by
- $0.4 million decrease in equity in earnings of unconsolidated joint ventures, net, primarily related to a decrease in earnings due to liquidation of one of our unconsolidated joint ventures in 2017; and
- $0.3 million decrease in casualty gain primarily related to an insurance settlement from a casualty event at one property in our Southern California market during 2017.

Other Expenses

Other expenses decreased $0.5 million for the three months ended March 31, 2018 compared to the same period in 2017, primarily due to the following:

- $0.7 million decrease in interest expense due to the following:
  - $1.5 million increase in capitalized interest primarily related to increased development activities; which was offset by
  - $0.8 million increase primarily due to increased average outstanding indebtedness of approximately $86.6 million; and
- $0.4 million decrease in depreciation and amortization expense resulting from the following:
  - $1.9 million decrease related to real estate dispositions; and
  - $0.8 million decrease related to our quarterly same-store portfolio; which was offset by
  - $2.3 million increase related to real estate acquisitions, development and redevelopment properties and value-add acquisitions, and capital additions; and
- $0.1 million decrease in income tax expense and other taxes; which was offset by
- $0.4 million increase in impairment losses on non-depreciable assets in 2018 with no corresponding activity during 2017; and
- $0.3 million increase in general and administrative expense primarily related to increased personnel costs.

Segment Summary for the three months ended March 31, 2018 compared to the same periods ended March 31, 2017
The Company's segments are based on our internal reporting of operating results used to assess performance based on our properties' geographical markets. Our markets are aggregated into three reportable regions or segments, East, Central and West, which are based on the geographical locations of our properties. These regions are comprised of the markets by which management and their operating teams conduct and monitor business (see further detail on our Segments in "Notes to the Consolidated Financial Statements, Note 10 – Segment Information"). Management considers rental revenues and property NOI aggregated by segment to be the appropriate way to analyze performance.
The following table presents the changes in our consolidated properties by segment (dollar amounts and square feet in thousands):

	As of March 31,				For the Three Months Ended March 31,	
	Number of buildings	Square feet	Occupancy at period end	Segment assets[1]	Rental revenues[2]	Property NOI[3]
EAST:						
2018	112	20,024	97.0 %	$1,086,894	$31,389	$24,227
2017	117	22,022	94.0 %	$1,080,525	$31,661	$24,218
CHANGE:	(5)	(1,998)	3.0 %	$6,369	$(272)	$9
CENTRAL:						
2018	151	24,337	91.9 %	$1,195,633	$37,186	$26,367
2017	148	23,084	95.1 %	$1,107,900	$34,598	$24,510
CHANGE:	3	1,253	(3.2)%	$87,733	$2,588	$1,857
WEST:						
2018	141	21,744	93.8 %	$1,597,232	$40,848	$31,866
2017	143	21,119	96.6 %	$1,507,128	$39,165	$30,468
CHANGE:	(2)	625	(2.8)%	$90,104	$1,683	$1,398

(1) Segment assets include all assets comprising our consolidated properties included in a segment, less non-segment cash and cash equivalents and other non-segment assets.
(2) Segment rental revenues include revenue from our operating portfolio, development and redevelopment properties and value-add acquisitions.
(3) For the definition of property NOI, as defined on page 35, and a reconciliation of our property NOI to our reported "Net income attributable to common stockholders" see "Notes to Consolidated Financial Statements, Note 10 – Segment Information."

The following table presents our total assets, net of accumulated depreciation and amortization, by segment (in thousands):

	As of March 31, 2018	As of December 31, 2017	$ Change
Segments:			
East assets	$1,086,894	$1,125,085	$(38,191)
Central assets	1,195,633	1,187,663	7,970
West assets	1,597,232	1,582,436	14,796
Total segment net assets	3,879,759	3,895,184	(15,425)
Non-segment assets:			
Non-segment cash and cash equivalents	12,371	10,522	1,849

Other non-segment assets[(1)]	163,711	104,966	58,745
Total assets	$4,055,841	$4,010,672	$45,169

(1) Other non-segment assets primarily consist of investments in and advances to unconsolidated joint ventures, other receivables, restricted cash and other assets.

East Segment

- East Segment assets decreased by approximately $38.2 million in 2018 due to the disposition of four properties partially offset by development costs incurred since December 31, 2017.
- East Segment property NOI remained consistent for the three months ended March 31, 2018 compared to the same period in 2017, primarily as a result of:
- $0.3 million decrease in NOI due to a decrease in rental revenues; which was offset by
- $0.3 million increase in NOI due to a decrease in total operating expenses primarily related to $0.6 million decrease in property taxes, offset by a $0.3 million increase in snow removal costs.

Central Segment

- Central Segment assets increased by approximately $8.0 million in 2018 primarily due to development costs incurred since December 31, 2017.
- Central Segment property NOI increased approximately $1.9 million for the three months ended March 31, 2018 compared to the same period in 2017 primarily as a result of:
- $2.6 million increase in NOI due to an increase in rental revenues, primarily due to an increase in base rent of $2.1 million; which was partially offset by
- $0.8 million decrease in NOI due to an increase in total operating expenses primarily related to a $0.4 million increase in snow removal costs and a $0.2 million increase in property taxes.

West Segment

- West Segment assets increased by approximately $14.8 million in 2018 due to the acquisitions of one value-add property and one land parcel since December 31, 2017.
- West Segment property NOI increased approximately $1.4 million for the three months ended March 31, 2018 compared to the same period in 2017, primarily as a result of:
- $1.7 million increase in NOI due to an increase in rental revenues, primarily due to an increase in base rent of $1.5 million; which was partially offset by
- $0.3 million decrease in NOI due to an increase in property taxes.

Liquidity and Capital Resources

Overview

We currently expect that our principal sources of working capital and funding for potential capital requirements for expansions and renovation of properties, developments, acquisitions, debt service and distributions to shareholders will include:

- Cash flows from operations;
- Proceeds from dispositions;
- Borrowings under our senior unsecured revolving credit facility;
- Other forms of secured or unsecured financings;
- Offerings of common stock or other securities;
- Current cash balances; and
- Distributions from institutional capital management and other joint ventures.

Our sources of capital will be used to meet our liquidity requirements and capital commitments, including operating activities, debt service obligations, equity holder distributions, capital expenditures at our properties, development funding requirements and future acquisitions. We expect to utilize the same sources of capital to meet our short-term and long-term liquidity requirements.

Cash Flows

“Cash, cash equivalents and restricted cash” were $81.5 million and $25.8 million as of March 31, 2018 and December 31, 2017, respectively.

Net cash provided by operating activities decreased $3.2 million to $49.0 million during the three months ended March 31, 2018 compared to $52.2 million during the same period in 2017. This change was primarily due to an increase in property taxes paid due to timing and an increase in pre-paid expenses partially offset by an increase in NOI primarily due to operating performance at existing properties and a decline in straight-line rent.

Net cash provided by investing activities increased $69.9 million to $4.5 million during the three months ended March 31, 2018 compared to $65.3 million of cash used in investing activities during the same period in 2017 primarily due to the following activities:

- $98.7 million increase in cash inflows from dispositions due to the sale of six properties in our Atlanta, Charlotte, Memphis, Northern California and Phoenix markets during the three months ended March 31, 2018 compared to no dispositions in the three months ended March 31, 2017;
- $3.6 million decrease in cash outflows related to investments in unconsolidated joint ventures due to contributions of $3.7 million in 2017 to the SCLA unconsolidated joint venture compared to contributions of $0.1 million in 2018; and
- $1.2 million increase in cash inflows from other investing activities due to a reduction in earnest money deposits for potential acquisitions; partially offset by
- $28.6 million increase in cash outflows related to capital expenditures and development activities, as reflected in the table below;
- $4.7 million increase in cash outflows related to acquisitions; and
- $0.3 million decrease in cash inflows from casualty proceeds.

We pursue the acquisition of buildings and land and consider selective development of new buildings in markets where we perceive that demand and market rental rates will provide attractive financial returns. The amount of cash used related to acquisitions and development and redevelopment investments will vary from period to period based on a number of factors, including, among others, current and anticipated future market conditions impacting the desirability of investments, leasing results with respect to our existing development and redevelopment projects and our ability to locate attractive opportunities. Not included in our Consolidated Financial Statements are our estimated construction costs to complete development and redevelopment projects of approximately $172.3 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Summary of Significant Transactions and Activities for the Three Months Ended March 31, 2018 – Development Activities" for further details regarding total projected investment of our current development activities as well as cumulative costs incurred as of March 31, 2018. Our total capital expenditures were comprised of the following (in thousands):

	For the Three Months Ended March 31,		
	2018	2017	$ Change
Development	$57,733	$29,704	$28,029
Redevelopment	415	2,909	(2,494)
Due diligence	1,399	474	925
Casualty expenditures	314	24	290
Building and land improvements	1,756	892	864
Tenant improvements and leasing costs	9,062	9,727	(665)
Total capital expenditures and development activities	70,679	43,730	26,949
Decrease in accruals and other adjustments	7,414	5,748	1,666
Total cash paid for capital expenditures and development activities	$78,093	$49,478	$28,615

We capitalize costs directly related to the development, pre-development, redevelopment or improvement of our investments in real estate. Building and land improvements comprise capital expenditures related to maintaining our consolidated operating activities. Due diligence capital relates to deferred acquisition costs identified during due diligence that are needed to stabilize an asset and/or bring an asset up to our physical standards.

We capitalize indirect costs such as personnel, office and administrative expenses that are directly related to our development projects, redevelopment projects, successful origination of new leases and probable acquisitions based on an estimate of the time spent on the development, leasing and acquisition activities. The total of these capitalized

costs was comprised of the following (in thousands):

	For the Three Months Ended March 31,		
	2018	2017	$ Change
Development activities	$1,269	$1,285	$(16)
Leasing activities	780	778	2
Operating building activities	769	765	4
Acquisition activities	57	153	(96)
Total capitalized indirect costs	$2,875	$2,981	$(106)

In addition, we capitalize interest costs incurred associated with development and construction activities. During the three months ended March 31, 2018 and 2017, total interest capitalized was $4.2 million and $2.7 million, respectively.

Net cash provided by financing activities decreased $7.3 million to $2.2 million net cash provided by financing activities during the three months ended March 31, 2018 compared to $9.5 million net cash provided by financing activities during the same period in 2017 primarily due to the following activities:

- $26.9 million net decrease in cash inflows related to borrowings and offsetting repayments of our senior unsecured notes due to the following:
- $51.9 million cash inflows resulting from the issuance of our 4.50% senior notes due in 2023 in March 2017 compared to no borrowings for the three months ended March 31, 2018; partially offset by
- $25.0 million cash outflows due to the early repayment of the remaining $25.0 million outstanding on our $100.0 million term loan at par in March 2017 compared to no repayments for the three months ended March 31, 2018; and
- $6.0 million increase in cash outflows due to distributions paid to common stockholders and unitholders as a result of an increase in our dividend rate per share, an increase in our common stock outstanding, operating partnership redemptions and offering costs;
- $2.0 million net decrease in proceeds from our senior unsecured revolving credit facility in 2018 compared to 2017, as borrowings of $45.0 million during 2018 was less than our borrowings of $93.0 million during 2017; offset by repayments of $15.0 million during 2018 compared to $61.0 million of repayments during 2017; and
- $0.2 million increase in cash outflows as a result of shares withheld via net settlement of stock-based awards to satisfy tax obligations; partially offset by
- $26.3 million decrease in cash outflows due to repayment of three mortgage notes at par in 2017 compared to none for the three months ended March 31, 2018;
- $0.6 million decrease in cash outflows from other financing activities, which is primarily driven by loan costs paid in 2017 related to the issuance of 4.50% senior notes due in 2023 compared to no debt issuance costs paid for the three months ended March 31, 2018;
- $0.5 million net increase in cash inflows due to the issuance of 0.2 million shares of common stock at a weighted average price of $57.36 per share in 2018 under our continuous equity offering program compared to the issuance of 0.2 million shares of common stock at a weighted average price of $48.30 per share in 2017; and
- $0.4 million net increase in cash inflows due to contributions from noncontrolling interests as a result of development activities.

Common Stock

As of March 31, 2018, approximately 94.1 million shares of common stock were issued and outstanding.

On September 10, 2015, we registered a continuous equity offering program whereby the Company may issue 5.0 million shares of common stock, at a par value of $0.01 per share, from time-to-time through September 10, 2018 in “at-the-market” offerings or certain other transactions. During the three months ended March 31, 2018, we issued approximately 0.2 million shares of common stock through the continuous equity offering program, at a weighted average price of $57.36 per share for proceeds of approximately $10.8 million, net of offering costs. We used the proceeds for general corporate purposes, including funding developments and redevelopments. As of March 31, 2018, approximately 0.5 million shares of common stock remain available to be issued under the current offering.

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OP Units

Limited partners have the right to require the Company to redeem all or a portion of the OP Units held by the limited partner at a redemption price equal to and in the form of the Cash Amount (as defined in the Amended and Restated Limited Partnership Agreement of the Operating Partnership ("Partnership Agreement")). DCT may, in its sole discretion, purchase the OP Units by paying to the limited partner either the Cash Amount or the REIT Shares Amount (generally one share of DCT's common stock for each OP Unit), as defined in the Partnership Agreement. During the three months ended March 31, 2018, approximately 31,000 OP Units were redeemed, which were all in shares of DCT common stock. During the three months ended March 31, 2017, approximately 56,000 OP Units were redeemed for approximately $0.8 million in cash and approximately 40,000 shares of DCT common stock. The OP Unit redemptions exclude LTIP Unit redemptions, see "Notes to the Consolidated Financial Statements, Note 8 – Stockholders' Equity of DCT and Partners' Capital of the Operating Partnership" for a summary of LTIP Unit redemptions.

As of March 31, 2018, and December 31, 2017, there were approximately 3.2 million outstanding OP Units in each corresponding period held by entities other than DCT and redeemable, with an aggregate redemption value of approximately $182.6 million and $191.0 million based on the $56.34 and $58.78 per share closing price of DCT's common stock on March 31, 2018, and December 31, 2017, respectively. As of March 31, 2018 and December 31, 2017, included in OP Units were approximately 0.8 million vested LTIP Units issued under our Long-Term Incentive Plan, as amended.

Distributions

During the three months ended March 31, 2018 and 2017, our board of directors declared distributions to stockholders and unitholders totaling approximately $35.0 million and $29.8 million, respectively. Existing cash balances, cash provided from operations, borrowings under our senior unsecured revolving credit facility and dispositions were used to pay distributions during 2018 and 2017.

The payment of quarterly distributions is determined by our board of directors and may be adjusted at its discretion at any time. During May 2018, our board of directors declared a quarterly cash dividend of $0.36 per share and unit, payable on July 11, 2018 to stockholders and OP Unitholders of record as of June 29, 2018.

Outstanding Indebtedness

As of March 31, 2018, our outstanding indebtedness of approximately $1.8 billion consisted of senior unsecured notes, bank unsecured credit facilities and mortgage notes, excluding approximately $51.7 million representing our proportionate share of non-recourse debt associated with unconsolidated joint ventures. As of December 31, 2017, our outstanding indebtedness of approximately $1.7 billion consisted of senior unsecured notes, bank unsecured credit facilities and mortgage notes, excluding approximately $51.9 million representing our proportionate share of non-recourse debt associated with unconsolidated joint ventures.

As of March 31, 2018, the gross book value of our consolidated properties was approximately $4.7 billion and the gross book value of all properties securing our mortgage debt was approximately $0.5 billion. As of December 31, 2017, the gross book value of our consolidated properties was approximately $4.7 billion and the gross book value of all properties securing our mortgage debt was approximately $0.5 billion. Our debt has various covenants with which we were in compliance as of March 31, 2018 and December 31, 2017.

Our debt instruments require monthly, quarterly or semiannual payments of interest and mortgages generally require monthly or quarterly repayments of principal. Currently, cash flows from our operations are sufficient to satisfy these debt service requirements and we anticipate that cash flows from operations will continue to be sufficient to satisfy our debt service excluding principal maturities, which we plan to fund from refinancing and/or new debt.

Line of Credit

As of March 31, 2018, we had $264.0 million outstanding and $134.1 million available under our $400.0 million senior unsecured revolving credit facility, net of two letters of credit totaling $1.9 million. As of December 31, 2017, we had $234.0 million outstanding and $164.1 million available under our $400.0 million senior unsecured revolving credit facility, net of two letters of credit totaling $1.9 million.

The senior unsecured revolving credit facility agreement contains various covenants with which we were in compliance as of

March 31, 2018 and December 31, 2017.

Debt Maturities

The following table presents the scheduled maturities of our debt and regularly scheduled principal amortization, excluding unamortized premiums and deferred loan costs, as of March 31, 2018 (in thousands):

Year	Senior Unsecured Notes	Mortgage Notes	Bank Unsecured Credit Facilities		Total
2018	$ 81,500	$ 5,053	$ —		$86,553
2019	46,000	51,344	264,000		361,344
2020	50,000	71,933	125,000		246,933
2021	92,500	18,436	—	(1)	110,936
2022	130,000	3,116	200,000		333,116
Thereafter	610,000	7,555	—	(1)	617,555
Total	$ 1,010,000	$ 157,437	$ 589,000		$1,756,437

(1) The term loan facilities are presented in “Senior unsecured notes” in our Consolidated Balance Sheets.

Financing Strategy

We do not have a formal policy limiting the amount of debt we incur, although we currently intend to operate so that our financial metrics are generally consistent with investment grade peers in the real estate industry. We continually evaluate our secured and unsecured leverage and among other relevant metrics, our fixed charge coverage ratio. Our charter and our bylaws do not limit the indebtedness that we may incur. We are, however, subject to certain covenants which may limit our outstanding indebtedness.

Contractual Obligations

The Company's fixed, noncancelable obligations as of December 31, 2017, did not materially change during the three months ended March 31, 2018, except for the changes to bank unsecured credit facilities as shown above.

Off-Balance Sheet Arrangements

As of March 31, 2018 and 2017, respectively, we had no off-balance sheet arrangements, other than those disclosed under contractual obligations in our 2017 Form 10-K, that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors, other than items discussed herein.

As of March 31, 2018, our proportionate share of the total construction loans of our unconsolidated development joint ventures was $51.7 million, which are scheduled to mature in October 2019, May 2024, and July 2024. Our proportionate share of the total construction loans, including undrawn amounts, of our unconsolidated development joint ventures includes 50.0% of the construction loans associated with the SCLA joint venture which are non-recourse to the venture partners.

Indebtedness and Other Off-Balance Sheet Arrangements

There are no lines of credit or side agreements related to, or between, our unconsolidated joint ventures and us, and there are no other derivative financial instruments between our unconsolidated joint ventures and us. In addition, we believe we have no material exposure to financial guarantees, except as discussed above.

We may elect to fund additional capital to a joint venture through equity contributions (generally on a basis proportionate to our ownership interests), advances or partner loans, although such funding is not required contractually or otherwise. As of March 31, 2018, our proportionate share of non-recourse debt associated with unconsolidated joint ventures is $51.7 million. The maturities of our proportionate share of the non-recourse debt are summarized in the table below (in thousands):

Year	DCT's Proportionate Share of Secured Non-Recourse Debt in Unconsolidated Joint Ventures
2018	$ —
2019	30,156
2020	—
2021	—
2022	—
Thereafter	21,555
Total	$ 51,711

Funds From Operations

DCT Industrial believes that net income (loss) attributable to common stockholders, as defined by GAAP, is the most appropriate earnings measure. However, DCT Industrial considers FFO, as defined by the National Association of Real Estate Investment Trusts ("Nareit"), to be a useful supplemental, non-GAAP measure of DCT Industrial's operating performance.

Nareit developed FFO as a relative measure of performance of an equity REIT in order to recognize that the value of income-producing real estate historically has not depreciated on the basis determined under GAAP.

FFO is generally defined as net income attributable to common stockholders, calculated in accordance with GAAP, with the following adjustments:

- Add real estate-related depreciation and amortization;
- Subtract gains from dispositions of real estate held for investment purposes;
- Add impairment losses on depreciable real estate and impairments of in substance real estate investments in investees that are driven by measurable decreases in the fair value of the depreciable real estate held by the unconsolidated joint ventures; and
- Adjustments for the preceding items to derive DCT Industrial's proportionate share of FFO of unconsolidated joint ventures.

We also present FFO, as adjusted, which excludes hedge ineffectiveness, certain severance costs, acquisition costs, debt modification costs and impairment losses on properties which are not depreciable. We believe that FFO, as adjusted, excluding hedge ineffectiveness, certain severance costs, acquisition costs, debt modification costs and impairment losses on non-depreciable real estate is useful supplemental information regarding our operating performance as it provides a more meaningful and consistent comparison of our operating performance and allows investors to more easily compare our operating results.

Readers should note that neither FFO nor FFO, as adjusted, captures the changes in the value of DCT Industrial's properties that result from use or market conditions, or the level of capital expenditures and leasing commissions necessary to maintain the operating performance of DCT Industrial's properties, all of which have real economic effect and could materially impact DCT Industrial's results from operations. Nareit's definition of FFO is subject to interpretation, and modifications to the Nareit definition of FFO are common. Accordingly, DCT Industrial's FFO, as adjusted, may not be comparable to other REITs' FFO or FFO, as adjusted, should be considered only as a supplement

to net income (loss) as a measure of DCT Industrial's performance.

The following table presents the calculation of our FFO reconciled from "Net income attributable to common stockholders" (unaudited, amounts in thousands, except per share and unit data):

	For the Three Months Ended March 31,	
	2018	2017
Reconciliation of net income attributable to common stockholders and unitholders to FFO:		
Net income attributable to common stockholders	$48,823	$14,959
Adjustments:		
Real estate related depreciation and amortization	41,232	41,605
Equity in earnings of unconsolidated joint ventures, net	(1,077)	(1,516)
Equity in FFO of unconsolidated joint ventures[(1)]	2,751	3,238
Gain on dispositions of real estate interests	(32,190)	(26)
Loss on dispositions of non-depreciable real estate	(3)	—
Noncontrolling interest in the above adjustments	(543)	(1,835)
FFO attributable to unitholders	2,091	2,254
FFO attributable to common stockholders and unitholders – basic and diluted	61,084	58,679
Adjustments:		
Impairment loss on land	371	—
Acquisition costs	—	13
Hedge ineffectiveness (non-cash)	—	30
FFO, as adjusted, attributable to common stockholders and unitholders – basic and diluted	$61,455	$58,722
FFO per common share and unit – basic	$0.63	$0.61
FFO per common share and unit – diluted	$0.63	$0.61
FFO, as adjusted, per common share and unit – basic	$0.63	$0.61
FFO, as adjusted, per common share and unit – diluted	$0.63	$0.61
FFO weighted average common shares and units outstanding:		
Common shares for net earnings per share	93,812	91,751
Participating securities	506	466
Units	3,323	3,665
FFO weighted average common shares, participating securities and units outstanding – basic	97,641	95,882
Dilutive common stock equivalents	25	133
FFO weighted average common shares, participating securities and units outstanding – diluted	97,666	96,015

(1) Equity in FFO of unconsolidated joint ventures is determined as our share of FFO from each unconsolidated joint venture.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the exposure to losses resulting from changes in market prices such as interest rates and rental rates. Our future earnings and cash flows are dependent upon prevailing market rates. Accordingly, we manage our market risk by matching projected cash inflows from operating, investing and financing activities with projected cash outflows for debt service, acquisitions, capital expenditures, distributions to stockholders and OP unitholders and other cash requirements. The majority of our outstanding debt has fixed interest rates, which minimizes the risk of fluctuating interest rates.

Interest Rate Risk

Our exposure to market risk includes interest rate fluctuations in connection with our senior unsecured revolving credit facility and other variable rate borrowings and forecasted fixed rate debt issuances, including refinancing of existing fixed rate debt. Interest rate risk may result from many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors that are beyond our control. To manage interest rate risk for variable rate debt and issuances of fixed rate debt, in the past we have primarily used treasury locks and forward-starting swaps as part of our cash flow hedging strategy. These derivatives are designed to mitigate the risk of future interest rate increases by providing a fixed interest rate for a limited, pre-determined period of time. We do not use derivatives for trading or speculative purposes and only enter into contracts with major financial institutions based on their credit rating and other factors.

During June 2013, certain of our consolidated ventures entered into two pay-fixed, receive-floating interest rate swaps to hedge the variability of future cash flows attributable to changes in the 1 month USD LIBOR rates. The pay-fixed, receive-floating interest rate swaps have an effective date of June 2013 and a maturity date of June 2023. These interest rate swaps effectively fix the interest rate on the related debt instruments at 4.72%. As of March 31, 2018, and December 31, 2017, we had borrowings payable subject to these pay-fixed, receive-floating interest rate swaps with aggregate principal balances of approximately $6.4 million for both periods presented.

During December 2015, we entered into a pay-fixed, receive-floating interest rate swap to hedge the variability of future cash flows attributable to changes in the 1 month USD LIBOR rates on our $200.0 million unsecured term loan. The pay-fixed, receive-floating interest rate swap has an effective date of December 2015 and a maturity date of December 2022. The interest rate swap effectively fixes the interest rate on the related debt instrument at 2.81%, however, there is no floor on the variable interest rate of the swap whereas the current variable rate debt is subject to a 0.0% floor. While LIBOR rates in certain foreign countries have been or are currently negative, USD LIBOR rates in the U.S. have never been negative nor do we expect them to become negative in the future. In the event that USD LIBOR is negative, the Company will make payments to the hedge counterparty equal to the negative spread between USD LIBOR and zero. As of March 31, 2018 and December 31, 2017, the entire $200.0 million principal amount of the term loan was subject to this pay-fixed, receive-floating interest rate swap. See “Notes to Consolidated Financial Statements, Note 5 – Financial Instruments and Hedging Activities” for additional information.

Our variable rate debt is subject to risk based upon prevailing market interest rates. As of March 31, 2018, we had approximately $389.0 million of variable rate debt outstanding indexed to LIBOR rates. If the LIBOR rates relevant to our variable rate debt were to increase 10%, we estimate that our interest expense during the three months ended March 31, 2018 would have increased approximately $0.2 million based on our outstanding floating-rate debt as of March 31, 2018. Additionally, if weighted average interest rates on our fixed rate debt were to have increased by 100 basis points due to refinancing, interest expense would have increased by approximately $3.4 million during the three months ended March 31, 2018.

As of March 31, 2018, the estimated fair value of our debt was approximately $1.8 billion based on our estimate of the then-current market interest rates.

ITEM 4. CONTROLS AND PROCEDURES

DCT Industrial Trust Inc.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures; as such term is defined under Rule 13a-15(e) under the Exchange Act, as of March 31, 2018, the end of the period covered by this report. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2018 in providing reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Changes in Internal Control over Financial Reporting

None.

DCT Industrial Operating Partnership LP

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of management, including the principal executive officer and principal financial officer of its general partner, the Operating Partnership conducted an evaluation of the effectiveness of its disclosure controls and procedures; as such term is defined under Rule 13a-15(e) under the Exchange Act, as of March 31, 2018, the end of the period covered by this report. Based on this evaluation, the principal executive officer and principal financial officer concluded that the Operating Partnership's disclosure controls and procedures were effective as of March 31, 2018 in providing reasonable assurance that information required to be disclosed by the Operating Partnership in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Changes in Internal Control over Financial Reporting

None.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS
None.

ITEM 1A. RISK FACTORS

For a discussion of our potential risks and uncertainties, please refer to the "Risk Factors" section in our Annual Report on Form 10-K for the year ended December 31, 2017, as filed on February 16, 2018. Other than the risks related to the Merger Agreement set forth below, there have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

Risks Related to the Mergers

The exchange ratio will not be adjusted in the event of any change in the stock prices of either us or Prologis.

Upon the consummation of the Mergers, each outstanding share of our common stock will be converted automatically into the right to receive 1.02 shares of Prologis common stock, with cash paid in lieu of any fractional shares, without interest. The exchange ratio of 1.02 will not be adjusted for changes in the market prices of either shares of our common stock or shares of Prologis common stock. Changes in the market price of shares of Prologis common stock prior to the Mergers will affect the market value of the merger consideration that our stockholders will receive on the closing date of the Mergers. Stock price changes may result from a variety of factors (many of which are beyond the control of us and Prologis), including the following factors:

•market reaction to the announcement of the Mergers and the pros