DCT Industrial Trust Inc.
Form 10-Q
November 02, 2012
Table of Contents

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 September 30, 2012

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.

(Exact name of registrant as specified in its charter)

Maryland	**82-0538520**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
518 Seventeenth Street, Suite 800	
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. 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). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of October 26, 2012, 269,230,551 shares of common stock of DCT Industrial Trust Inc., par value $0.01 per share, were outstanding.

Table of Contents

DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

Index to Form 10-Q

Table of Contents

DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except share information)

	September 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Land	$ 683,051	$ 647,552
Buildings and improvements	2,402,239	2,393,346
Intangible lease assets	74,355	84,779
Construction in progress	42,706	35,386
Total investment in properties	3,202,351	3,161,063
Less accumulated depreciation and amortization	(613,418)	(589,314)
Net investment in properties	2,588,933	2,571,749
Investments in and advances to unconsolidated joint ventures	147,643	139,278
Net investment in real estate	2,736,576	2,711,027
Cash and cash equivalents	37,591	12,834
Notes receivable	231	1,053
Deferred loan costs, net	7,006	8,567
Straight-line rent and other receivables, net of allowance for doubtful accounts of $1,319 and $1,256, respectively	48,205	42,349
Other assets, net	25,647	17,468
Total assets	$ 2,855,256	$ 2,793,298
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable and accrued expenses	$ 51,713	$ 45,785
Distributions payable	20,464	19,057
Tenant prepaids and security deposits	19,872	22,864
Other liabilities	7,853	29,797
Intangible lease liability, net	18,843	18,897
Line of credit		
Senior unsecured notes	1,025,000	935,000
Mortgage notes	275,216	317,783
Total liabilities	1,418,961	1,389,183
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, 350,000,000 shares authorized 268,683,134 and 245,943,100 shares issued and outstanding as of September 30, 2012 and December 31, 2011, respectively	2,687	2,459
Additional paid-in capital	2,158,817	2,018,075
Distributions in excess of earnings	(851,154)	(783,229)
Accumulated other comprehensive loss	(34,791)	(29,336)
Total stockholders equity	1,275,559	1,207,969

Noncontrolling interests	160,736	196,146
Total equity	1,436,295	1,404,115
Total liabilities and equity	$ 2,855,256	$ 2,793,298

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

Table of Contents

DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

Consolidated Statements of Operations

(unaudited, in thousands, except per share information)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
REVENUES:				
Rental revenues	$ 67,327	$ 61,009	$ 194,774	$ 177,378
Institutional capital management and other fees	937	1,004	3,143	3,153
Total revenues	68,264	62,013	197,917	180,531
OPERATING EXPENSES:				
Rental expenses	9,151	7,977	24,714	24,242
Real estate taxes	10,093	9,235	29,309	26,462
Real estate related depreciation and amortization	30,862	30,495	92,112	88,181
General and administrative	6,838	6,346	19,136	20,465
Casualty gains			(141)	
Total operating expenses	56,944	54,053	165,130	159,350
Operating income	11,320	7,960	32,787	21,181
OTHER INCOME AND EXPENSE:				
Equity in earnings (loss) of unconsolidated joint ventures, net	1,208	(967)	784	(3,450)
Impairment losses on investments in unconsolidated joint ventures				(1,934)
Interest expense	(17,299)	(16,515)	(51,769)	(46,539)
Interest and other income (expense)	194	(356)	354	(257)
Income tax benefit (expense) and other taxes	(68)	56	(623)	(105)
Loss from continuing operations	(4,645)	(9,822)	(18,467)	(31,104)
Income from discontinued operations	12,906	731	2,357	2,632
Consolidated net income (loss) of DCT Industrial Trust Inc.	8,261	(9,091)	(16,110)	(28,472)
Net (income) loss attributable to noncontrolling interests	(713)	1,015	1,870	3,385
Net income (loss) attributable to common stockholders	7,548	(8,076)	(14,240)	(25,087)
Distributed and undistributed earnings allocated to participating securities	(134)	(103)	(400)	(337)
Adjusted net income (loss) attributable to common stockholders	$ 7,414	$ (8,179)	$ (14,640)	$ (25,424)
EARNINGS PER COMMON SHARE BASIC AND DILUTED:				
Loss from continuing operations	$ (0.02)	$ (0.03)	$ (0.07)	$ (0.12)
Income from discontinued operations	0.05	0.00	0.01	0.01
Net income (loss) attributable to common stockholders	$ 0.03	$ (0.03)	$ (0.06)	$ (0.11)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic and diluted	253,657	245,805	249,381	241,548

Distributions declared per common share	$	0.07	$	0.07	$	0.21	$	0.21

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

2

Table of Contents

DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(unaudited, in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Consolidated net income (loss) of DCT Industrial Trust Inc.	$ 8,261	$ (9,091)	$ (16,110)	$ (28,472)
Other Comprehensive income:				
Net unrealized loss on cash flow hedging derivatives	(2,590)	(12,119)	(6,802)	(15,247)
Realized loss related to hedging activities	24		677	129
Amortization of cash flow hedging derivatives	524	251	1,026	719
Other Comprehensive loss	(2,042)	(11,868)	(5,099)	(14,399)
Comprehensive income (loss)	6,219	(20,959)	(21,209)	(42,871)
Comprehensive (income) loss attributable to noncontrolling interests	(922)	2,111	1,514	4,548
Comprehensive income (loss) attributable to common stockholders	$ 5,297	$ (18,848)	$ (19,695)	$ (38,323)

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

3

Table of Contents

DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

Consolidated Statement of Changes in Equity

(unaudited, in thousands)

	Total Equity	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Distributions in Excess of Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests
Balance at December 31, 2011	$ 1,404,115	245,943	$ 2,459	$ 2,018,075	$ (783,229)	$ (29,336)	$ 196,146
Net loss	(16,110)				(14,240)		(1,870)
Other Comprehensive loss	(5,099)					(5,455)	356
Issuance of common stock, net of offering costs	112,515	18,975	190	112,325			
Issuance of common stock, stock-based compensation plans	(277)	241	3	(280)			
Amortization of stock-based compensation	3,076			1,238			1,838
Distributions to common stockholders and noncontrolling interests	(59,046)				(53,685)		(5,361)
Issuance of noncontrolling interests	(61)						(61)
Partner contributions from noncontrolling interests	30						30
Redemptions of noncontrolling interests	(2,848)	3,524	35	27,459			(30,342)
Balance at September 30, 2012	$ 1,436,295	268,683	$ 2,687	$ 2,158,817	$ (851,154)	$ (34,791)	$ 160,736

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

4

Table of Contents

DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(unaudited, in thousands)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
OPERATING ACTIVITIES:		
Consolidated net loss of DCT Industrial Trust Inc.	**$ (16,110)**	**$ (28,472)**
Adjustments to reconcile consolidated net loss of DCT Industrial Trust Inc. to net cash provided by operating activities:		
Real estate related depreciation and amortization	94,676	96,839
Gain on dispositions of real estate interests	(12,348)	
Distributions of earnings from unconsolidated joint ventures	3,349	2,008
Equity in (earnings) loss of unconsolidated joint ventures, net	(784)	3,450
Stock-based compensation	3,076	3,733
Impairment losses	11,422	1,934
Straight-line rent	(4,404)	(7,003)
Other	3,466	(817)
Changes in operating assets and liabilities:		
Other receivables and other assets	(8,522)	(6,171)
Accounts payable, accrued expenses and other liabilities	3,801	10,039
Net cash provided by operating activities	**77,622**	**75,540**
INVESTING ACTIVITIES:		
Real estate acquisitions	(120,325)	(146,211)
Capital expenditures and development activities	(61,028)	(49,949)
Proceeds from dispositions of real estate investments	81,804	
Investments in unconsolidated joint ventures	(18,399)	(17,789)
Distributions of investments in unconsolidated joint ventures	6,640	11,983
Other investing activities	(219)	2,610
Net cash used in investing activities	**(111,527)**	**(199,356)**
FINANCING ACTIVITIES:		
Proceeds from senior unsecured revolving line of credit	268,000	238,500
Repayments of senior unsecured revolving line of credit	(268,000)	(238,000)
Proceeds from senior unsecured notes	90,000	400,000
Repayments of senior unsecured notes		(200,000)
Principal payments on mortgage notes	(49,885)	(129,807)
Payments of deferred loan costs	(75)	(4,859)
Settlement of cash flow hedge	(33,550)	
Proceeds from issuance of common stock, net	112,645	111,931
Offering costs for issuance of common stock and OP Units	(191)	(343)
Redemption of noncontrolling interests	(2,848)	(136)
Dividends to common stockholders	(52,079)	(50,024)
Distributions to noncontrolling interests	(5,385)	(5,588)
Contributions from noncontrolling interests	30	106
Net cash provided by financing activities	**58,662**	**121,780**

NET DECREASE IN CASH AND CASH EQUIVALENTS		**24,757**		**(2,036)**
CASH AND CASH EQUIVALENTS, beginning of period		**12,834**		**17,330**
CASH AND CASH EQUIVALENTS, end of period	**$**	**37,591**	**$**	**15,294**
Supplemental Disclosures of Cash Flow Information				
Cash paid for interest, net of capitalized interest	$	49,316	$	41,270
Supplemental Disclosures of Non-Cash Activities				
Retirement of fully depreciated and amortized assets, net	$	37,914	$	33,270
Redemptions of OP Units settled in shares of common stock	$	27,494	$	7,009
Assumption of mortgage notes in connection with real estate acquired	$	6,990	$	7,653
Contributions of real estate from noncontrolling interests	$		$	4,401

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

5

Table of Contents

DCT INDUSTRIAL TRUST INC. 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 acquisition, development, leasing and management of bulk distribution and light industrial properties located in high-volume distribution markets in the United States and Mexico. As used herein, DCT Industrial Trust, DCT, the Company, we, our and us refer to DCT Industrial Trust Inc. and its consolidated subsidiaries and partners except where the context otherwise requires. We were formed as a Maryland corporation in April 2002 and have elected to be treated as a real estate investment trust (REIT) for United States (U.S.) federal income tax purposes. We are structured as an umbrella partnership REIT under which substantially all of our current and future business is, and will be, conducted through a majority owned and controlled subsidiary, DCT Industrial Operating Partnership LP (the operating partnership), a Delaware limited partnership, for which DCT Industrial Trust Inc. is the sole general partner. We own our properties through our operating partnership and its subsidiaries. As of September 30, 2012, we owned approximately 92% of the outstanding equity interests in our operating partnership.

As of September 30, 2012, the Company owned interests in approximately 75.2 million square feet of properties leased to approximately 840 customers, including:

- 58.0 million square feet comprising 388 consolidated properties owned in our operating portfolio which were 91.8% occupied;
- 16.7 million square feet comprising 51 unconsolidated properties which were 84.2% occupied and operated on behalf of five institutional capital management partners;
- 0.2 million square feet comprising two consolidated properties under redevelopment; and
- 0.3 million square feet comprising two consolidated buildings in development.

The Company also has four consolidated buildings and one unconsolidated expansion project under construction and several projects in predevelopment. See Notes to Consolidated Financial Statements Note 3 Investment in Properties for further detail 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 of 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, 2011 and related notes thereto as filed on Form 10-K on February 29, 2012.

Basis of Presentation

The accompanying Consolidated Financial Statements include the financial position, results of operations and cash flows of the Company, its wholly-owned qualified REIT and taxable REIT subsidiaries, the operating partnership and its consolidated joint ventures, in which it has a controlling interest. Third-party equity interests in the operating partnership and consolidated joint ventures are reflected as noncontrolling interests in the Consolidated Financial

6

Statements. 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 amounts have been eliminated.

Principles of Consolidation

We hold interests in both consolidated and unconsolidated joint ventures. All joint ventures over which we have financial and operating control, and variable interest entities (VIE s) 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 over which we do not have a controlling interest or where we do not exercise significant control over major operating and management decisions, but where we exercise significant influence and include our share of earnings or losses of these joint ventures in our consolidated net loss.

We analyze our joint ventures in accordance with GAAP to determine whether they are VIE s 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, the size of our investment (including loans) and our ability to participate in major decisions. Our ability to correctly assess our influence or control over an entity affects the presentation of these investments in the Consolidated Financial Statements and, consequently, our financial position and results of operations.

Reclassifications

Certain items in our Consolidated Financial Statements for 2011 have been reclassified to conform to the 2012 presentation.

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.

Capitalization of Costs

We capitalize costs directly related to the development, predevelopment, redevelopment or improvement of our investment in real estate, referred to as capital projects and other activities included within this paragraph. Costs associated with our capital projects are capitalized as incurred. If the project is abandoned, these costs are expensed during the period in which the project is abandoned. Costs considered for capitalization include, but are not limited to, construction costs, interest, real estate taxes and insurance, if appropriate. We capitalize indirect costs such as personnel, office and administrative expenses that are directly related to our development projects based on an estimate of the time spent on the construction and development activities. These costs are capitalized only during the period in which activities necessary to ready an asset for its intended use are in progress and such costs are incremental and identifiable to a specific activity to get the asset ready for its intended use. We determine when the capitalization period begins and ends through communication with project and other managers responsible for the tracking and oversight of individual projects. In the event that the activities to ready the asset for its intended use are suspended, the capitalization period will cease until such activities are resumed. In addition, we capitalize initial direct costs incurred for successful origination of new leases. Costs incurred for maintaining and repairing our properties, which do not extend their useful lives, are expensed as incurred.

Interest is capitalized based on actual capital expenditures from the period when development or redevelopment commences until the asset is ready for its intended use, at the weighted average borrowing rate during the period. We also capitalize interest on our qualifying investments in unconsolidated joint ventures based on the average capital invested in a venture during the period when the venture has activities in progress necessary to commence its planned principle operations, at our weighted average borrowing rate during the period. A qualifying investment is an investment in an unconsolidated joint venture provided that our investee s activities include the use of funds to acquire qualifying assets, such as development or predevelopment activities, and planned principle operations have not commenced.

Table of Contents

Discontinued Operations

We classify certain properties and related assets and liabilities as held for sale when certain criteria are met. At such time, the respective assets and liabilities are presented separately on our Consolidated Balance Sheets. We include liabilities related to assets held for sale that will be transferred in the transaction in Liabilities related to assets held for sale. Assets held for sale are reported at the lower of carrying value or estimated fair value less estimated costs to sell. The operating results of such properties are presented in Income (loss) from discontinued operations in current periods and all comparable periods presented. Depreciation is not recorded on properties held for sale; however, depreciation expense recorded prior to classification as held for sale is included in Income (loss) from discontinued operations. Gains on sales of real estate assets are recognized if the specific transaction terms and any continuing involvement in the form of management or financial assistance meet the various sale recognition criteria as defined by GAAP. If the criteria are not met, we defer the gain until such time that the criteria for sale recognition have been met. Net gains on sales and any impairment losses associated with assets held for sale are presented in Income (loss) from discontinued operations when recognized.

Fair Value

The Financial Accounting Standards Board (FASB) issued guidance related to accounting for fair value measurements which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is defined as the exit price or price at which an asset (in its highest and best use) would be sold or liability assumed by an informed market participant in a transaction that is not distressed and is executed in the most advantageous market. This guidance provides a framework of how to determine such measurements on reported balances which are required or permitted to be measured at fair value under existing accounting pronouncements and emphasizes that fair value is a market-based rather than an entity-specific measurement. Therefore, our fair value measurement is determined based on the assumptions that market participants would use to price the asset or liability. As a basis for considering market participant assumptions in fair value measurements, this guidance establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity s own assumptions about market participant assumptions based on the best information available in the circumstances (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals, and the contracted sales price for assets held for sale. Level 3 inputs are unobservable inputs for the asset or liability that are typically based on management s own assumptions, as there is little, if any, related observable market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Investment in Properties

We record the assets, liabilities and noncontrolling interests associated with property acquisitions which qualify as business combinations at their respective acquisition-date fair values which are derived using a market, income or replacement cost approach, or a combination thereof. Acquisition-related costs associated with business combinations are expensed as incurred. As defined by GAAP, a business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants. We do not consider acquisitions of land or unoccupied buildings to be business combinations. Rather, these transactions are treated as asset acquisitions and recorded at cost.

The fair value of identifiable tangible assets such as land, building, building and land improvements and tenant improvements is determined on an as-if-vacant basis. Management considers Level 3 inputs such as the replacement cost of such assets, appraisals, property condition reports, market data and other related information in determining the fair value of the tangible assets. The difference between the fair value and the face value of debt assumed in connection with an acquisition is recorded as a premium or discount and amortized to Interest expense over the life of the debt assumed. The valuation of assumed liabilities is based on the current market rate for similar liabilities. The recorded fair value of intangible lease assets includes Level 3 inputs and represents the value associated with in-place leases which include leasing commissions, legal and other costs, as well as an intangible asset or liability resulting from in-place leases being above or below the market rental rates over the lease term on the date of the acquisition. Intangible lease assets or liabilities are amortized over the reasonably assured lease term of the remaining in-place leases as an adjustment to Rental revenues or Real estate related depreciation and amortization depending on the nature of the intangible.

We have certain properties which we have acquired or removed from service with the intention to redevelop the property. Buildings under redevelopment require significant construction activities prior to being placed back into service. We generally do not depreciate properties classified as redevelopment until the date that the redevelopment properties are ready for their intended use.

Real estate, including land, building, building and land improvements, tenant improvements, leasehold improvements, leasing costs and intangible lease assets and liabilities are stated at historical cost less accumulated depreciation and amortization, unless circumstances indicate that the cost cannot be recovered, in which case, the carrying value of the property is reduced to estimated fair value.

Depreciation and Useful Lives of Real Estate Assets

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the related assets or liabilities. Our ability to assess the useful lives of our real estate assets accurately is critical to the determination of the appropriate amount of depreciation and amortization expense recorded and the carrying values of the underlying assets. Any change to the estimated depreciable lives of these assets would have an impact on the depreciation and amortization expense we recognize.

The following table reflects the standard depreciable lives typically used to compute depreciation and amortization. However, such depreciable lives may be different based on the estimated useful life of such assets or liabilities. The carrying value of assets sold or retired and the related accumulated depreciation and/or amortization is derecognized and the resulting gain or loss, if any, is recorded during the period in which such sale or retirement occurs.

Description	Standard Depreciable Life
Land	Not depreciated
Building	20 40 years
Building and land improvements	5 20 years
Tenant improvements	Shorter of lease term or useful life
Leasehold improvements	5 20 years
Leasing costs	Lease term
Other intangible lease assets	Average term of leases for property
Above/below market rent assets/liabilities	Reasonably assured lease term

Depreciation is not recorded on real estate assets currently held for sale or contribution, in pre-development, or being developed or redeveloped until the building is substantially completed and ready for its intended use, not later than one year from cessation of major construction activity.

Impairment of Properties

Investments in properties classified as held for use are carried at cost and evaluated for impairment at least annually and when events or changes in circumstances indicate that the carrying amounts of these assets may not be fully recoverable. Examples of such changes in circumstances include the point at which we deem a building to be held for sale, our intended hold period changes, or when a building remains vacant significantly longer than expected. For investments in properties that we intend to hold long-term, the recoverability is based on the estimated future undiscounted cash flows. If the asset carrying value is not supported on an undiscounted cash flow basis, the amount of impairment is measured as the difference between the carrying value and the fair value of the asset and is reflected in Impairment losses on the Consolidated Statements of Operations. The determination of fair value of real estate assets to be held for use is derived using the discounted cash flow method and involves a number of management assumptions relating to future economic events that could materially affect the determination of the

Table of Contents

ultimate value, and therefore, the carrying amounts of our real estate. Such assumptions are Level 3 inputs and include, but are not limited to, projected vacancy rates, rental rates, property operating expenses and capital expenditures. The capitalization rate is also a significant driving factor in determining the property valuation and requires management s judgment of factors such as market knowledge, historical experience, lease terms, tenant financial strength, economy, demographics, environment, property location, visibility, age, physical condition and expected return requirements, among other things. The aforementioned factors are taken as a whole by management in determining the valuation of investment property. The valuation is sensitive to the actual results of any of these uncertain factors, either individually or taken as a whole. Should the actual results differ from management s estimates, the valuation could be negatively affected and may result in additional impairments recorded in the Consolidated Financial Statements.

Investments in properties classified as held for sale are measured at the lower of their carrying amount or fair value (typically, the contracted sales price, a Level 2 input) less estimated costs to sell. Impairment of assets held for sale is a component of Income (loss) from discontinued operations in the Consolidated Statements of Operations and is further detailed in Note 13 Discontinued Operations and Assets Held for Sale.

Investments in and Advances to Unconsolidated Joint Ventures

We account for our investments in and advances to unconsolidated joint ventures under the equity method because we exercise significant influence over, but do not control, these entities. Under the equity method, these investments (including advances to joint ventures) are initially recorded at cost and are subsequently adjusted to reflect our proportionate share of net earnings or losses of each of the joint ventures, distributions received, contributions made and certain other adjustments, as appropriate. Such investments are included in Investments in and advances to unconsolidated joint ventures in our Consolidated Balance Sheets. Distributions from these investments that are related to earnings from operations are included as operating activities and distributions that are related to capital transactions are included as investing activities in our Consolidated Statements of Cash Flows.

Impairment of Investments in Unconsolidated Joint Ventures

We evaluate our investments in unconsolidated entities for impairment whenever events or changes in circumstances indicate that there may be an other-than-temporary decline in value. To do so, we calculate the estimated fair value of the investment using a market, income or replacement cost approach, or combination thereof. The amount of impairment recognized, if any, would be the excess of the investment s carrying amount over its estimated fair value. We consider various factors to determine if a decline in the value of the investment is other-than-temporary. These factors are Level 2 and 3 inputs and include but are not limited to, age of the venture, our intent and ability to retain our investment in the entity, the financial condition and long-term prospects of the entity, expected term of the investment and the relationships with the other joint venture partners and its lenders. If we believe that the decline in the fair value is temporary, no impairment is recorded. The aforementioned factors are taken as a whole by management in determining the valuation of our investment property. Should the actual results differ from management s estimates, the valuation could be negatively affected and may result in a negative impact on the Consolidated Financial Statements.

Derivative Instruments and Hedging Activities

We record derivatives at fair value which are presented on a gross basis in Other Assets or Other Liabilities in our Consolidated Balance Sheets. 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. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. 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.

Table of Contents

As of September 30, 2012, we did not have any hedges in place however, during the three months ended September 30, 2012 we settled one cash flow hedge. For derivatives designated as cash flow hedges, the effective portion of the changes in the fair value of the derivative is initially reported in Accumulated other comprehensive loss in our Consolidated Statement of Changes in Equity (i.e., not included in earnings) and subsequently reclassified into earnings when the hedged transaction affects earnings or the hedging relationship is no longer effective at which time the ineffective portion of the derivative s changes in fair value is recognized directly into earnings. 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.

Our objective in using derivatives is to manage our exposure to interest rate volatility associated with our forecasted debt issuances including refinancing of our fixed-rate debt and certain variable rate borrowings. To accomplish this objective, we primarily use treasury locks, forward-starting swaps and interest rate swaps as part of our cash flow hedging strategy. These derivatives are designed to mitigate the risk of future interest rate fluctuations by providing a future fixed interest rate for a limited, pre-determined period of time.

Revenue Recognition

We record rental revenues on a straight-line basis under which contractual rent increases are recognized evenly over the full 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, we record receivables from tenants that we expect to collect over the remaining lease term rather than currently, which are recorded as a straight-line rent receivable. When we acquire a property, the terms of existing leases are considered to commence as of the acquisition date for the purposes of this calculation. The total increase to Rental revenues due to straight-line rent adjustments was approximately $1.3 million and $4.4 million, for the three and nine months ended September 30, 2012, respectively, and $1.7 million and $6.7 million, for the same periods in 2011, respectively.

Tenant recovery income includes payments and amounts due from tenants pursuant to their leases for real estate taxes, insurance and other recoverable property operating expenses and is recognized as Rental revenues during the same period the related expenses are incurred. Tenant recovery income recognized as Rental revenues was approximately $14.4 million and $39.7 million, for the three and nine months ended September 30, 2012, respectively and $12.3 million and $34.5 million for the same periods in 2011, respectively.

We maintain an allowance for estimated losses that may result from the inability of our tenants to make required payments. If a tenant fails to make contractual payments beyond any allowance, we may recognize additional bad debt expense in future periods equal to the net outstanding balances. As of September 30, 2012 and December 31, 2011, our allowance for doubtful accounts was approximately $1.3 million.

In connection with property acquisitions qualifying as 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. 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 over the shorter of the expected life of such assets and liabilities or the remaining lease term. The total net impact to Rental revenues due to the amortization of above and below market rents was an increase of approximately $0.2 million and $0.6 million for the three and nine months ended September 30, 2012, respectively, and $0.1 million and $0.3 million for the same periods in 2011, respectively.

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. The total net impact to Rental revenues due to early lease termination fees was an increase of approximately $0.2 million and $0.4 million for the three and nine months ended September 30, 2012, respectively and $0.3 million and $0.4 million for the same periods in 2011, respectively.

We earn revenues from asset management fees, acquisition fees, property management fees and fees for other services pursuant to joint venture and other 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 fees are earned and are realized or realizable.

Table of Contents

Stock-Based Compensation

On October 10, 2006, we established the Long-Term Incentive Plan, as amended, to grant restricted stock, stock options and other awards to our personnel and directors. 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 fully vest. Such expense is included in General and administrative expense in our Consolidated Statements of Operations. Options issued under the Long-Term Incentive Plan are valued using the Black-Scholes option pricing model, which relies on assumptions we make related to the expected term of the options, volatility, dividend yield and risk free interest rate.

New Accounting Standards

During the second quarter of 2011, the FASB issued Accounting Standards Update No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS, which generally aligns the principles for fair value measurements and the related disclosure requirements under US GAAP and International Financial Reporting Standards (IFRS). This standard requires new disclosures, with a particular focus on Level 3 measurements, including; quantitative information about the significant unobservable inputs used for all Level 3 measurements; qualitative discussion about the sensitivity of recurring Level 3 measurements to changes in the unobservable inputs disclosed, including the interrelationship between inputs and a description of the company s valuation processes. This standard also requires disclosure of any transfers between Levels 1 and 2 of the fair value hierarchy; information about when the current use of a non-financial asset measured at fair value differs from its highest and best use and the hierarchy classification for items whose fair value is not recorded on the balance sheet but is disclosed in the notes. This standard was effective for interim and annual periods beginning after December 15, 2011. In conjunction with the adoption of this standard, we made an accounting policy election to measure the credit risk of our derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio. We adopted this standard effective January 1, 2012.

Also during the second quarter of 2011, the FASB issued Accounting Standards Update No. 2011-05, Presentation of Comprehensive Income, which eliminates the option to report other comprehensive income and its components in the statement of changes in stockholders equity. Entities had the option to present the components of net income and other comprehensive income either in a single continuous statement or in two separate but consecutive statements. This standard requires retrospective application and was effective for interim and annual periods beginning after December 15, 2011. We adopted this standard on January 1, 2012 and have presented the components of net income and other comprehensive income in two separate but consecutive statements.

Table of Contents

Note 3 Investment in Properties

Our consolidated investment in properties consist of operating properties, redevelopment properties, properties under development, properties in pre-development and land held for future development or other purposes. The following table provides our historical cost of our investment in properties (in thousands).

	September 30, 2012	December 31, 2011
Operating properties	$ 3,084,837	$ 3,100,172
Properties under redevelopment	9,995	4,284
Properties under development	53,415	9,525
Properties in pre-development including land held	54,104	47,082
Total Investment in Properties	**3,202,351**	**3,161,063**
Less accumulated depreciation and amortization	(613,418)	(589,314)
Net Investment in Properties	**$ 2,588,933**	**$ 2,571,749**

Acquisition Activity

During the nine months ended September 30, 2012, we acquired 12 buildings comprising 2.0 million square feet. These properties located in the Phoenix, Atlanta, Chicago, Houston, Miami, Dallas, New Jersey, Southern California and Seattle markets were acquired for a total purchase price of approximately $107.4 million. We have incurred acquisition costs of approximately $1.0 million during the nine months ended September 30, 2012, included in General and administrative in our Consolidated Statement of Operations.

During the nine months ended September 30, 2011, we acquired 20 buildings comprising 2.2 million square feet and controlling interests in three buildings totaling 0.4 million square feet. These properties are located in the Southern California, New Jersey, Miami, Orlando, Chicago, Phoenix, Atlanta, Denver and Houston markets. These properties and controlling interests were acquired from unrelated third-parties, except as disclosed in Note 10 Related Party Transactions for a total purchase price of approximately $133.5 million. We have consolidated the three properties in which we acquired controlling interests and, as a result, we recorded $143.3 million on our balance sheet, in the aggregate, for these three properties and the 20 other properties that we acquired during the nine months ended September 30, 2011. This amount included $9.8 million attributable to the noncontrolling interests share of the three properties that we did not acquire. We incurred acquisition costs of approximately $1.6 million during the nine months ended September 30, 2011, included in General and administrative in our Consolidated Statement of Operations.

Development Activity

2012 Development Activity

As of September 30, 2012, seven projects were under construction in our Baltimore/Washington D.C., Chicago, Houston, Miami and Southern California markets. We have leased two buildings in Baltimore/Washington D.C. which total approximately 0.2 million square feet of which 0.1 million square feet stabilized in July 2012. During the three months ended September 30, 2012, we purchased a shell-complete building in Houston, which is now in lease up, which totals approximately 0.3 million square. We are continuing construction of an approximately 0.2 million square foot building on the first of two parcels of land we acquired last year in Miami and have began construction of another 0.2 million square foot building on the second parcel of land. These projects are expected to be shell-complete in the fourth quarter of 2012 and the second quarter of 2013, respectively, and are 90% and 74% leased, respectively. We are continuing construction of a 0.6 million square foot building on the 32.6 acre land parcel we purchased earlier this year in Chicago, which is expected to be completed in the fourth quarter of 2012. We also began construction of a 0.2 million square foot expansion of an unconsolidated building in Southern California, which is expected to be completed in the fourth quarter of 2012 and is 100% leased. Finally, we began construction of a 0.1 million square foot building, which is being built to sell in Baltimore/Washington D.C. This project is expected to be completed in 2013. The total costs incurred on these projects as of September 30, 2012 was $65.1 million.

Table of Contents

2011 Development Activity

During the nine months ended September 30, 2011, we acquired three land parcels totaling 81.9 acres in the Miami, Southern California and Cincinnati markets for a total price of $20.0 million.

Disposition Activity

During the nine months ended September 30, 2012, we sold 31 operating properties totaling approximately 2.0 million square feet to third-parties in the Atlanta, Charlotte, New Jersey, Houston and Dallas markets, for combined gross proceeds of $85.5 million. We recognized gains of approximately $12.3 million on the disposition of 18 operating properties, including a portfolio of properties in Houston. We recognized an impairment loss of approximately $11.4 million on a portfolio of 13 properties in Atlanta. All gains and impairments associated with these sales are reflected in Income (loss) from discontinued operations in the Consolidated Financial Statements. We did not have any dispositions during the nine months ended September 30, 2011.

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 $2.4 million and $8.0 million for the three and nine months ended September 30, 2012 and $2.8 million and $8.5 million for the same periods in 2011, respectively. Our intangible lease assets included the following as of September 30, 2012 and December 31, 2011 (in thousands).

	September 30, 2012			**December 31, 2011**		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Other intangible lease assets	$ 68,738	$ (32,293)	$ 36,445	$ 77,692	$ (38,549)	$ 39,143
Above market rent	$ 5,617	$ (4,715)	$ 902	$ 7,087	$ (5,191)	$ 1,896
Below market rent	$ (26,610)	$ 7,767	$ (18,843)	$ (26,905)	$ 8,008	$ (18,897)

The following table describes the estimated net amortization of such intangible assets and liabilities for the next five years and thereafter. In addition, the table describes the net impact on rental revenues due to the amortization of above and below market rents for the next five years and thereafter (in thousands).

For the Period Ended December 31,	Estimated Net Amortization of Lease Intangible Assets	Estimated Net Increase to Rental Revenues Related to Above and Below Market Rents
Remainder of 2012	$ 2,096	$ (291)
2013	7,256	(1,459)
2014	5,758	(1,286)
2015	4,461	(1,060)
2016	3,282	(843)
Thereafter	13,592	(13,002)
Total	$ 36,445	$ (17,941)

Table of Contents

Note 4 Investments in and Advances to Unconsolidated Joint Ventures

We enter into joint ventures primarily for purposes of developing industrial real estate and to establish commingled investment vehicles with institutional partners. Our investments in these joint ventures are included in Investments in and advances to unconsolidated joint ventures in our Consolidated Balance Sheets. The following table summarizes our unconsolidated joint ventures as of September 30, 2012 and December 31, 2011 (dollars in thousands).

Unconsolidated Joint Ventures	DCT Ownership as of September 30, 2012	Number of Buildings	Unconsolidated Investments in and Advances as of September 30, 2012	Unconsolidated Investments in and Advances as of December 31, 2011
Institutional Joint Ventures:				
DCT/SPF Industrial Operating LLC[1]	20.0%	13	$ 42,855	$ 45,510
TRT-DCT Venture I[2]	3.6%	14	587	548
TRT-DCT Venture II[3]	11.4%	5	2,042	2,172
TRT-DCT Venture III[3][4]	10.0%	4	1,237	1,491
DCT Fund I LLC[5]	20.0%	6	(922)	(313)
Subtotal Institutional Joint Ventures		42	45,799	49,408
Other:				
Stirling Capital Investments (SCLA)[6]	50.0%	6	70,982	58,629
IDI/DCT, LLC[3]	50.0%	3	27,831	28,240
IDI/DCT Buford, LLC (land only)	75.0%		3,031	3,001
Subtotal Other		9	101,844	89,870
Total		51	$ 147,643	$ 139,278

(1) During the third quarter of 2012, DCT/SPF Industrial Operating LLC disposed of one property in the Cincinnati market for gross proceeds, net of joint venture interest, of $2.9 million. We recognized a gain of $0.8 million, inclusive of a previously deferred gain of approximately $0.3 million, in Equity in earnings (loss) in unconsolidated joint ventures in our Consolidated Statement of Operations during the three and nine months ended September 30, 2012.

(2) During the first quarter of 2012, our joint venture partner, Dividend Capital Total Reality Trust Inc., contributed one property into TRT-DCT Venture I. As a result of this activity, we made a capital contribution totaling $0.2 million, which resulted in our equity ownership decreasing to 3.6% as of September 30, 2012, as compared to 4.4% as of December 31, 2011.

(3) During 2011, our unconsolidated joint ventures completed dispositions of three properties in Cincinnati, Kansas City and Northern California for gross proceeds, net of joint venture partners interest, of $13.8 million. We recognized deferred gains upon disposition of these properties totaling $0.7 million.

(4) During the second quarter of 2012, TRT-DCT Venture III disposed of one property in the Louisville market for gross proceeds, net of joint venture partners interest, of $0.8 million. We recognized our portion of the gain of approximately $0.2 million in Equity in earnings (loss) in unconsolidated joint ventures in our Consolidated Statement of Operations during the nine months ended September 30, 2012.

(5) In accordance with the DCT Fund I s (the Fund) LLC agreement, the Fund terminated in February 2012 resulting in the Fund beginning the process of an orderly windup as outlined by the LLC agreement.

(6) Although we contributed 100% of the initial cash equity capital required by the venture, our partners retain certain participation rights in the venture s available cash flows.

Table of Contents

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 believe we have no material exposure to financial guarantees.

Note 5 Financial Instruments and Hedging Activities

Fair Value of Financial Instruments

As of September 30, 2012 and December 31, 2011, the fair values of cash and cash equivalents, restricted cash held in escrow, accounts receivable and accounts payable approximated their carrying values because of the short-term nature of these instruments. The estimated fair values of other financial instruments subject to fair value disclosures were determined based on available market information and valuation methodologies appropriate 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 as of September 30, 2012 and December 31, 2011 (in thousands).

	Balances as of September 30, 2012		**Balances as of December 31, 2011**	
	Carrying Amounts	Estimated Fair Value	Carrying Amounts	Estimated Fair Value
Notes receivable[1]	$ 231	$ 232	$ 1,053	$ 1,058
Borrowings[1]:				
Senior unsecured revolving credit facility	$	$	$	$
Fixed rate debt[2]	$ 1,125,216	$ 1,244,533	$ 1,077,783	$ 1,218,321
Variable rate debt	$ 175,000	$ 175,000	$ 175,000	$ 174,979
Interest rate contracts:				
Interest rate swap[3]	$	$	$ (26,746)	$ (26,746)

(1) The fair values of our notes receivable and 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 as a result of the difference between the fair value and face value of debt assumed in connection with our acquisition activities.

(3) The fair value of our interest rate swap 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. We also incorporate a credit valuation adjustment, which is derived using unobservable Level 3 inputs, to appropriately reflect both our nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurement. For further discussion on the fair value of our interest rate swap, see Note 2 Significant Accounting Policies.

The following table displays a reconciliation of liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended September 30, 2012 and 2011. During the same periods, we had no assets measured at fair value on a recurring basis. The table also displays gains and losses due to changes in fair value, including both realized and unrealized, recognized in the Consolidated Statements of Operations for Level 3 liabilities. When assets and liabilities are transferred between levels, we recognize the transfer at the beginning of the period (in thousands).

Table of Contents

	During the Nine Months Ended September 30, 2012	During the Nine Months Ended September 30, 2011
Level 3 Liabilities:		
Interest Rate Swaps:		
Beginning balance at January 1	$ (26,746)	$ (10,109)
Net unrealized loss included in accumulated other comprehensive loss	(6,127)	(15,247)
Realized loss recognized in interest expense	(677)	
Cash paid for settlement of hedge	33,550	
Ending balance at September 30	$	$ (25,356)

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. During 2012, 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 the issuances of new debt, as well as refinancing of existing debt upon maturity.

As of September 30, 2012, we did not have any hedges in place. In July 2012, we settled our forward-starting swap for $33.6 million, which was in place to hedge the variability of cash flows associated with forecasted issuances of debt, contemporaneously with locking rate for $90.0 million of debt which was funded in September 2012.

On a recurring basis, we measure our derivatives at fair value, which was a gross liability of approximately $26.7 million as of December 31, 2011, respectively. This amount is included in Other Liabilities in our Consolidated Balance Sheet. The fair value of our derivatives was determined using Level 2 and 3 inputs. We utilize a third party derivative valuation expert to determine the fair value, including the Level 3 component of the swap liability, during each reporting period. The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated other comprehensive loss and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings and is recorded as Interest expense in our Consolidated Statements of Operations. During the nine months ended September 30, 2012 we recognized $0.7 million of ineffectiveness due to the change in estimated timing of debt issuance. During the three and nine months ended September 30, 2011, we recognized no ineffectiveness.

During the three and nine months ended September 30, 2012, we recorded approximately $2.6 million and $6.8 million of net unrealized losses, respectively, including the noncontrolling interests portions of $0.2 million and $0.5 million, respectively, in Accumulated other comprehensive loss as a result of the change in fair value of our outstanding hedges during the periods. During the three and nine months ended September 30, 2011, we recorded approximately $12.1 million and $15.2 million of net unrealized losses, respectively, including the noncontrolling interests portions of $1.1 million and $1.4 million, respectively, in Accumulated other comprehensive loss as a result of the change in fair value of our outstanding hedges during the periods.

As of September 30, 2012 and December 31, 2011 the Accumulated other comprehensive loss balance pertaining to the hedges were losses of approximately $37.7 million and $32.6 million, respectively, including the noncontrolling interests portion. 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 $4.0 million will be reclassified from Accumulated other comprehensive loss to Interest expense resulting in an increase in such expense.

Table of Contents

Note 6 Outstanding Indebtedness

As of September 30, 2012 our outstanding indebtedness of approximately $1.3 billion consisted of mortgage notes and senior unsecured notes, excluding approximately $54.5 million representing our proportionate share of non-recourse debt associated with unconsolidated joint ventures. As of December 31, 2011, our outstanding indebtedness of approximately $1.3 billion consisted of mortgage notes and senior unsecured notes, excluding approximately $61.7 million representing our proportionate share of non-recourse debt associated with unconsolidated joint ventures.

As of September 30, 2012, the gross book value of our consolidated properties was approximately $3.2 billion and the gross book value of all properties securing our mortgage debt was approximately $0.7 billion. As of December 31, 2011, the gross book value of our consolidated properties was approximately $3.2 billion and the gross book value of all properties securing our mortgage debt was approximately $0.7 billion. Our debt has various covenants with which we were in compliance as of September 30, 2012 and December 31, 2011.

Debt Issuances

In September 2012, we issued $90.0 million of fixed rate, senior unsecured notes through a private placement offering. These senior unsecured notes mature in September 2022 and have a fixed interest rate of 4.21%. The notes require semi-annual interest payments. The proceeds from these notes were used to repay outstanding indebtedness and for general corporate purposes.

Debt Retirements and Assumptions

During the nine months ended September 30, 2012, we retired mortgage notes totaling approximately $43.0 million previously scheduled to mature in September 2012, October 2012 and January 2013 using proceeds from the Company s senior unsecured revolving credit facility and proceeds from our equity offering.

In June 2012 we assumed two mortgage notes with outstanding balances of approximately $4.5 million and $2.5 million in connection with two property acquisitions. The assumed notes bear interest at 6.08% and 6.25%, respectively, and require monthly payments of principal and interest. The notes mature in August 2016 and July 2020, respectively.

Line of Credit

As of September 30, 2012 and December 31, 2011, we did not have any amounts outstanding on our senior unsecured revolving credit facility.

Note 7 Noncontrolling Interests

Noncontrolling interests are the portion of equity, or net assets, in a subsidiary not attributable, directly or indirectly, to a parent. Our noncontrolling interests primarily represent limited partnership interests in the operating partnership and equity interests held by third-party partners in consolidated real estate joint ventures, including related parties as discussed in Note 10 Related Party Transactions. Noncontrolling interests representing interests in the operating partnership primarily include limited partnership interest in our operating partnership (OP Units) and LTIP Units which are classified as permanent equity in accordance with GAAP and are included in Noncontrolling interests in the Consolidated Balance Sheets.

The following table illustrates the noncontrolling interests share of consolidated net loss during the three and nine months ended September 30, 2012 and 2011 (in thousands).

18

Table of Contents

	Three Months Ended September 30,	Nine Months Ended September 30,
	2012	