DCT Industrial Trust Inc.
Form 10-K
February 16, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
(Mark one)
x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2017
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

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock (DCT Industrial Trust Inc.)	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act.
DCT Industrial Trust Inc. Yes x No ¨ DCT Industrial Operating Partnership LP Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
DCT Industrial Trust Inc. Yes ¨ No x DCT Industrial Operating Partnership LP Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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. (Check one):

DCT Industrial Trust Inc.:

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

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

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 Act).

DCT Industrial Trust Inc. Yes ¨ No x DCT Industrial Operating Partnership LP Yes ¨ No x

As of June 30, 2017, the aggregate market value of the 92.8 million shares of voting and non-voting common stock held by non-affiliates of DCT Industrial Trust Inc. was $5.0 billion based on the closing sale price of $53.44 as reported on the New York Stock Exchange on June 30, 2017. (For this computation, DCT Industrial Trust Inc. has excluded the market value of all shares of common stock reported as beneficially owned by executive officers and directors of DCT Industrial Trust Inc.; such exclusion shall not be deemed to constitute an admission that any such person is an affiliate of DCT Industrial Trust Inc.) As of February 9, 2018 there were 93,852,805 shares of common stock outstanding. There is no public trading market for the common units of DCT Industrial Operating Partnership LP. As a result, the aggregate market value of the common units held by non-affiliates of DCT Industrial Operating Partnership LP cannot be determined.

Documents Incorporated by Reference

Portions of DCT Industrial Trust Inc.'s definitive proxy statement to be issued in conjunction with DCT Industrial Trust Inc.'s annual meeting of stockholders to be held May 3, 2018 are incorporated by reference into Part III of this annual report.

EXPLANATORY NOTE

This report combines the annual reports on Form 10-K for the fiscal year ended December 31, 2017 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 of 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 December 31, 2017, DCT owned approximately 96.6% 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 periodic reports on Form 10-K 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 3.4% of the Operating Partnership were owned by executives and non-affiliated limited partners as of December 31, 2017.

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 II, Item 9A. Controls and Procedures sections and separate Exhibits 31 and 32 certifications for DCT and the Operating Partnership in order 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
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ANNUAL REPORT ON FORM 10-K
For the Fiscal Year Ended December 31, 2017

FORWARD-LOOKING STATEMENTS

We make statements in this annual report on Form 10-K 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 v 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:

- 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 annual report.

PART I

ITEM 1. BUSINESS

The Company

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 of 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 December 31, 2017, DCT owned approximately 96.6% of the outstanding equity interests in the Operating Partnership.

Available Information

Our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and any amendments to any of those reports that we file with the Securities and Exchange Commission are available free of charge as soon as reasonably practicable through our website at http://investors.dctindustrial.com. The information contained on our website is not incorporated into this annual report. Our common stock is listed on the New York Stock Exchange under the symbol “DCT”.

Business Overview

Our portfolio primarily consists of high-quality, bulk-distribution and light-industrial warehouses. The properties we target for acquisition or development are generally characterized by convenient access to major transportation arteries, proximity to densely populated urban centers and quality design standards that allow our customers’ efficient and flexible use of the buildings. In the future, we intend to continue focusing on properties that exhibit these characteristics in select U.S. markets where we believe we can achieve favorable returns and leverage our local expertise. We seek to maximize growth in earnings and shareholder value within the context of overall economic conditions, primarily through maintaining high levels of occupancy, increasing rents and operating income at existing properties and acquiring and developing high-quality properties with attractive operating income and value growth prospects. In addition, we will recycle our capital by disposing of non-strategic, lower growth assets and reinvesting the proceeds into newly acquired or developed assets where we believe the returns will be more favorable over time.

As of December 31, 2017, the Company owned interests in approximately 74.8 million square feet of properties leased to approximately 850 customers, including:

- 65.1 million square feet comprising 398 consolidated operating properties, including five properties totaling 1.9 million square feet classified as held for sale, that were 97.8% occupied;
- 1.0 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 three consolidated value-add acquisitions; and
- 7.6 million square feet comprising 21 unconsolidated properties that were 98.4% occupied and which we operated on behalf of two unconsolidated joint ventures.

In addition, the Company has 19 projects under construction and several projects in pre-development. See “Notes to Consolidated Financial Statements, Note 3 – Investment in Properties” for further details.

As of December 31, 2017, our total consolidated portfolio consisted of 408 properties with an average size of 165,000 square feet and an average age of 22 years.

During the year ended December 31, 2017, we acquired five buildings. These properties were acquired for a total purchase price of approximately $129.0 million. During the year ended December 31, 2017, we sold 12 consolidated operating properties to third-parties for gross proceeds of approximately $115.3 million. We recognized gains of approximately $47.1 million on the disposition of 11 properties and an impairment loss of approximately $0.3 million on one property during 2017.

We have a broadly diversified customer base. As of December 31, 2017, our consolidated properties had leases with approximately 850 customers with no single customer accounting for more than 3.4% of the total annualized base rent of our properties. Our 10 largest customers occupy approximately 16.6% of our consolidated properties based on square footage and account for approximately 18.7% of our annualized base rent as of December 31, 2017. We believe that our national presence in the top U.S. distribution markets provides geographic diversity and is attractive to users of distribution space which allows us to build strong relationships with our customers. Furthermore, we are actively engaged in meeting our customers' expansion and relocation requirements.

Our principal executive office is located at 555 17th Street, Suite 3700, Denver, Colorado 80202; our telephone number is (303) 597-2400. We also maintain regional offices in Atlanta, Georgia; Chicago, Illinois and Newport Beach, California and market offices in Baltimore, Maryland; Cincinnati, Ohio; Dallas, Texas; Houston, Texas; Miami, Florida; Paramus, New Jersey; Emeryville, California; Orlando, Florida; Philadelphia, Pennsylvania; and Seattle, Washington. Our website address is www.dctindustrial.com.

Business Strategy

Our primary business objectives are to maximize long-term growth in Funds From Operations, or FFO, per share (see definition in "Selected Financial Data"), net asset value of our portfolio and total shareholder returns. In our pursuit of these long-term objectives, we seek to:

- Maximizing Cash Flows From Existing Properties. We intend to maximize the cash flows from our existing properties by active leasing and management, maintaining strong customer relationships, controlling operating expenses and physically maintaining the quality of our properties. Renewing tenants, leasing space and effectively managing expenses are critical to achieving our objectives and are a primary focus of our local real estate teams.
- Selectively Pursuing New Development. To create value and enhance the quality of our portfolio, we expect to continue developing new assets in select markets where strong tenant demand, rents and vacancy levels demonstrate the need for new construction at returns that make sense for the Company. During 2017, we acquired 12 land parcels for development totaling approximately 344.3 acres and we commenced construction on 19 development and redevelopment buildings comprising 4.0 million square feet with a projected investment of approximately $335.4 million. In 2017, we also stabilized six development buildings, three redevelopment buildings and three value-add acquisitions totaling 2.9 million square feet with cumulative costs of approximately $232.8 million. As of December 31, 2017, there were six shell-construction complete buildings under development totaling 1.0 million square feet, 19 projects under construction totaling approximately 4.9 million square feet and three value-add acquisitions in lease-up totaling 1.0 million square feet. All of the buildings under construction are projected to be completed during 2018.
- Profitably Acquiring Properties. We seek to acquire properties that meet our asset, location and financial criteria at prices and potential returns which we believe are attractive. We have selected certain markets and sub-markets where we focus our efforts on identifying buildings to acquire. During the year ended December 31, 2017, we acquired five buildings comprising 1.3 million square feet located in our Chicago, Denver, Northern California, Orlando and Southern California markets for a total purchase price of approximately $129.0 million.
- Recycling Capital. We intend to selectively dispose of non-strategic assets and redeploy the proceeds into higher growth acquisition and development opportunities. In 2017, we sold 12 consolidated operating properties for gross proceeds of approximately $115.3 million. The proceeds have been designated for deployment into new development and higher growth assets.
- Conservatively Managing Our Balance Sheet. We plan to maintain financial metrics, including leverage and coverage ratios on a basis consistent with our investment grade ratings. We believe that a conservatively managed balance sheet provides for a competitive long-term cost of capital.

Our Competitive Strengths

We believe that we distinguish ourselves from other owners, operators, acquirers and developers of industrial properties through the following competitive strengths:

- High-Quality Industrial Property Portfolio. Our portfolio of industrial properties primarily consists of high-quality bulk-distribution facilities in high demand leasing markets. Our properties are specifically designed to meet the warehousing needs of local, regional and national companies. The majority of our properties are readily divisible to take advantage of re-tenanting opportunities. We believe that our concentration of well located, high-quality bulk-distribution properties provides us with a competitive advantage in attracting and retaining distribution users across the markets in which we operate.
- Experienced and Committed Management Team. Our executive management team collectively has an average of nearly 30 years of commercial real estate experience and 19 years of industrial real estate experience. Additionally, our executive management team has extensive public company operating experience.
- Strong Operating Platform. We have a team of approximately 90 experienced transaction and property management professionals working in 13 offices to maximize market opportunities through local expertise, presence and relationships. We believe successfully meeting the needs of our customers and anticipating and responding to market opportunities will result in achieving superior returns from our properties as well as provide opportunities for the sourcing of new acquisitions and development opportunities.
- Extensive Development and Redevelopment Expertise. Our local market teams have significant experience in all facets of value-add activities including development and redevelopment capabilities. We believe our local teams' knowledge of our markets and their relationships with key market participants, including land owners, users and brokers, combined with the technical expertise required to successfully execute on complex transactions, provides us with an excellent platform to create value while appropriately managing risk.
- Proven Acquisition and Disposition Capabilities. The Company has extensive experience in acquiring industrial real estate, including both smaller transactions as well as larger portfolio acquisitions. Our local market teams are an important advantage in sourcing potential marketed as well as off-market transactions. Further, consistent with our capital recycling strategy, we have disposed of a cumulative $2.2 billion of real estate investments since the inception of the Company.
- Strong Industry Relationships. We believe that our extensive network of industry relationships with the brokerage and investor communities will allow us to execute successfully our development, acquisition and capital recycling strategies. These relationships augment our ability to source acquisitions in off-market transactions outside of competitive marketing processes, capitalize on development opportunities and capture repeat business and transaction activity. Our strong relationships with local and nationally focused brokers aids in attracting and retaining customers.
- Capital Structure. Our capital structure provides us with sufficient financial flexibility and capacity to fund future growth. As of December 31, 2017, we had $164.1 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, 366 of our consolidated properties with a gross book value of $4.2 billion were unencumbered. During the year ended December 31, 2017, we also issued approximately 1.8 million shares of common stock through the continuous equity offering program, at a weighted average price of $54.48 per share for proceeds of approximately $95.5 million, net of offering expenses.

Operating Segments

Our operating results used to assess performance are aggregated into three reportable segments, East, Central and West, which are based on the geographical markets where our management and operating teams conduct and monitor business. We consider rental revenues and property net operating income ("NOI") aggregated by segment to be the appropriate way to analyze performance. See additional information in "Item 2. Properties" and in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Notes to Consolidated Financial Statements, Note 14 – Segment Information."

Competition

The market for the leasing of industrial real estate is highly competitive. We experience competition for customers from other existing assets in proximity to our buildings as well as from new development. Institutional investors, other REITs and local real estate operators generally own such properties; however, no single competitor or small group of competitors is dominant in our current markets. However, as a result of competition, we may have to provide concessions, incur charges for tenant improvements or offer other inducements, all of which may have an adverse impact on our results of operations.

The market for the acquisition of industrial real estate is also very competitive. We compete for real property investments with other REITs and institutional investors such as pension funds and their advisors, private real estate investment funds, insurance company investment accounts, private investment companies, individuals and other entities engaged in real estate investment activities, some of which have greater financial resources than we do.

Environmental Matters

We are exposed to various environmental risks that may result in unanticipated losses and affect our operating results and financial condition. Either we or the previous owners subjected a majority of the properties we have acquired, including land, to environmental reviews. While some of these assessments have led to further investigation and sampling, none of the environmental assessments has revealed an environmental liability that we believe would have a material adverse effect on our business, financial condition or results of operations. See “Item 1A. Risk Factors” for additional information.

Employees

As of December 31, 2017, we had 145 full-time employees.

ITEM 1A. RISK FACTORS

RISKS RELATED TO OUR BUSINESS AND OPERATIONS

Adverse economic conditions could negatively affect our returns and profitability.

Our operating results may be affected by weakness in the national and/or international economy as well as the local economies where our properties are concentrated. Specific impacts, among others, may include:

- increased levels of tenant defaults under, or non-renewals of, leases;
- re-leasing which may require concessions, tenant improvement expenditures or reduced rental rates;
- overbuilding which may increase vacancies;
- adverse capital and credit market conditions may restrict our development and redevelopment activities; and
- reduced access to credit may result in an inability of potential buyers to acquire our properties held for sale.

The value of our investments may not appreciate or may decline significantly below the amount we pay for these investments. The length and severity of any economic slowdown or downturn cannot be predicted. Our operations could be negatively affected to the extent that an economic slowdown or downturn is prolonged or becomes more severe.

Our investments are concentrated in the industrial real estate sector, and our business would be adversely affected by an economic downturn in that sector.

Our investments in real estate assets are primarily concentrated in the industrial real estate sector. This concentration may expose us to the risk of economic downturns in this sector to a greater extent than if our business activities were more diversified.

We depend on key personnel.

Our success depends to a significant degree upon the continued contributions of certain key personnel including, but not limited to, our management group, each of whom would be difficult to replace. If any of our key personnel were to cease employment with us, our operating results, financial condition and cash flows could suffer. Our ability to retain our management group, attract suitable replacements, or to attract new hires as needed, is dependent on the competitive nature of the employment market. Further, the loss of key personnel, or our inability to replace them, could be negatively perceived in the capital markets. We do not carry key man life insurance on any of our personnel.

Our operating results and financial condition could be adversely affected if we do not continue to have access to capital on favorable terms.

As a REIT, we must meet certain annual distribution requirements. Consequently, we are largely dependent on asset sales or external capital to fund our development and acquisition activities. Further, in order to maintain our REIT status and avoid the payment of income and excise taxes, we may need to borrow funds on a short-term basis to meet the REIT distribution requirements even if the then-prevailing market conditions are not favorable for these borrowings. These short-term borrowing needs could result from differences in timing between the actual receipt of cash and inclusion of income for U.S. federal income tax purposes or the effect of non-deductible capital expenditures, the creation of reserves or required debt or amortization payments. Additionally, our ability to sell assets or access capital is dependent upon a number of factors, including general market conditions and competition from other real estate companies. To the extent that capital is not available to acquire or develop properties, profits may not be realized or their realization may be delayed, which could result in an earnings stream that is less predictable than some of our competitors and result in us not meeting our projected earnings and distributable cash flow levels in a particular reporting period. Failure to meet our projected earnings and distributable cash flow levels in a particular reporting period could have an adverse effect on our financial condition and on the market price of our common stock.

Our long-term growth may partially depend upon future acquisitions of properties, and we may be unable to consummate acquisitions on advantageous terms or acquisitions may not perform as we expect.

We acquire and intend to continue to acquire primarily high-quality generic bulk-distribution warehouses and light-industrial properties. The acquisition of properties entails various risks, including the risks that our investments may not perform as we expect, that we may be unable to integrate our new acquisitions into our existing operations quickly and efficiently and that our cost estimates for bringing an acquired property up to market standards may prove inaccurate. Further, we face significant competition for attractive investment opportunities from other well-capitalized real estate investors, including both publicly-traded REITs and private institutional investment funds, and these competitors may have greater financial resources than us and a greater ability to borrow funds to acquire properties. This competition increases as investments in real estate become increasingly attractive relative to other forms of investment. As a result of competition, we may be unable to acquire additional properties as we desire or the purchase price may be significantly elevated. In addition, we expect to finance future acquisitions through a combination of borrowings under our senior unsecured credit facility, proceeds from equity or debt offerings by us or our operating partnership or its subsidiaries and proceeds from property contributions and sales which may not be available and which could adversely affect our cash flows. Any of the above risks could adversely affect our financial condition, results of operations, cash flows and ability to pay distributions on, and the market price of, our common stock.

Our real estate development strategies may not be successful.

We are involved in the construction and renovation of distribution facilities and we intend to continue to pursue development and renovation activities as opportunities arise either on our own or in joint ventures. We will be subject to risks associated with our development and renovation activities that could adversely affect our financial condition, results of operations, cash flows, our ability to pay dividends, and/or the market price of our common stock.

Actions of our joint venture partners could negatively impact our performance.

Our organizational documents do not limit the amount of available funds that we may invest in partnerships, limited liability companies or joint ventures, and we intend to selectively continue to develop and acquire properties through joint ventures, limited liability companies and partnerships with other persons or entities when warranted by the circumstances. Such partners may share certain approval rights over major decisions. Such investments may involve risks not otherwise present with other methods of investment in real estate, including, but not limited to:

- that our partner in an investment might become bankrupt, which could mean that we may be responsible for the joint venture's liabilities;
- that such partner may at any time have economic or business interests or goals which are or which become inconsistent with our business interests or goals;
- that such partner may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives, including our current policy with respect to maintaining our qualification as a REIT;
- that, if our partners fail to fund their share of any required capital contributions, we may be required to contribute such capital;
- that a joint venture agreement may restrict our ability to sell our interest therein, or the underlying property, when we desire or on advantageous terms;
- that our relationships with our partners are contractual in nature and may be terminated or dissolved under the terms of the agreements and, in such event, we may not continue to own or operate the interests or assets underlying such relationship or may need to purchase such interests or assets at an above-market price to continue ownership;
- that disputes between us and our partners may result in litigation or arbitration that could increase our expenses and prevent our officers and directors from focusing their time and effort on our business and result in subjecting the underlying property to additional risk;
- that we may in certain circumstances be liable for the actions of our partners; and
- that we may, as a general partner investing in a limited partnership, have liability for all of the liabilities of such partnership, even if we do not have full management rights or control, and our liability may far exceed the amount or value of the investment we initially made or then had in the partnership.

The availability and timing of cash distributions is uncertain.

We expect to continue to pay quarterly distributions to our stockholders. However, we bear all expenses incurred by our operations, and our funds generated by operations, after payment of these expenses, may not be sufficient to cover desired levels of distributions to our stockholders. In addition, our board of directors, in its discretion, may retain any portion of such cash for working capital. We cannot assure our stockholders that sufficient funds will be available to pay distributions.

Declining real estate valuations and impairment charges could adversely affect our earnings and financial condition.

We may decide to dispose of select real estate assets, thereby changing the holding period assumption in our valuation analyses for those assets, which could result in material impairment losses and adversely affect our financial results. Economic conditions could change our intended hold period for a property or have required or could require us to recognize real estate impairment charges on some of our assets and equity investments. We conduct a comprehensive review of all our real estate assets in accordance with our policy of accounting for impairments (see further discussion of our accounting policies in “Notes to the Consolidated Financial Statements, Note 2 -Summary of Significant Accounting Policies” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Polices and Estimates”). The principal factor which has led to impairment charges in the past was the severe economic deterioration in many markets resulting in a decrease in leasing demand, rental rates, rising vacancies and/or an increase in capitalization rates. These possible impairment charges or losses could adversely affect our financial condition, results of operations and/or the market price of our stock.

Our business could be adversely impacted if we have deficiencies in our disclosure controls and procedures or internal control over financial reporting.

Although continuously reviewed, the design and effectiveness of our disclosure controls and procedures and internal control over financial reporting may not prevent all errors, misstatements, misrepresentations or a failure to follow such controls by an employee and could result in a decline in our stock price, or otherwise materially adversely affect our business, reputation, results of operations, financial condition or liquidity.

We face risks associated with security breaches through cyber-attacks, cyber intrusions or otherwise, as well as other significant disruptions of our information technology (IT) networks and related systems.

We face risks associated with security breaches, whether through cyber-attacks or cyber intrusions over the Internet, malware, computer viruses, attachments to e-mails, spoofed e-mails, persons inside our organization or persons with access to systems inside our organization, and other significant disruptions of our IT networks and related systems. The risk of a security breach or disruption, particularly through cyber-attack or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have significantly increased. Our IT networks and related systems are essential to the operation of our business and our ability to perform day-to-day operations and, in some cases, may be critical to the operations of certain of our tenants. Although we make efforts to maintain the security and integrity of these types of IT networks and related systems, provide appropriate training to our employees, and have implemented various measures to manage the risk of a security breach or disruption, even the most well protected information, networks, systems and facilities remain potentially vulnerable because the techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases are designed to not be detected and, in fact, may not be detected. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is impossible for us to entirely mitigate this risk. A security breach or other significant disruption involving our IT networks and related systems could disrupt the proper functioning of our networks and systems; result in misstated financial reports, violations of loan covenants and/or missed reporting deadlines; result in the loss, theft or misappropriation of our property; result in our inability to properly monitor our compliance with the rules and regulations regarding our qualification as a REIT; result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of proprietary, confidential, sensitive or otherwise valuable information of ours or others, which others could use to compete against us or for disruptive, destructive or otherwise harmful purposes and outcomes; require significant management attention and resources to remedy any damages that result; subject us to claims for breach of contract, damages, credits, penalties or termination of leases or other agreements; or damage our reputation among our tenants and investors generally.

RISKS RELATED TO CONFLICTS OF INTEREST

Our UPREIT structure may result in potential conflicts of interest.

As of December 31, 2017, we owned 96.6% of the units of limited partnership interest in our operating partnership, or OP Units, certain unaffiliated limited partners owned 2.5% of the OP Units and certain of our officers, owned the remaining 0.9% of the OP Units. Persons holding OP Units in our operating partnership have the right to vote on certain amendments to the limited partnership agreement of our operating partnership, as well as on certain other matters. Persons holding such voting rights may exercise them in a manner that conflicts with the interests of our stockholders. Furthermore, circumstances may arise in the future when the interest of limited partners in our operating partnership may conflict with the interests of our stockholders. For example, the timing and terms of dispositions of properties held by our operating partnership may result in tax consequences to certain limited partners and not to our stockholders.

GENERAL REAL ESTATE RISKS

Our performance and value are subject to general economic conditions and risks associated with our real estate assets.

The investment returns from equity investments in real estate depend in part on the amount of income earned and capital appreciation generated by the properties, as well as the expenses incurred in connection with the properties. If our properties do not generate income sufficient to meet operating expenses, including debt service and capital expenditures, then our ability to pay distributions to our stockholders could be adversely affected. In addition, there are significant expenditures associated with an investment in real estate (such as mortgage payments, real estate taxes and maintenance costs) that generally do not decline when circumstances reduce the income from the property.

Income from, and the value of, our properties may, in addition to risks discussed elsewhere in this section, be adversely affected by:

- changes in supply of or demand for similar or competing properties in an area;
- changes in interest rates and availability of permanent mortgage funds that may render the sale of a property difficult or unattractive or otherwise reduce returns to stockholders;
- changes in or increased costs of compliance with governmental rules, regulations and fiscal policies, including changes in tax, real estate, environmental and zoning laws, and our potential liability thereunder;
- our ability to provide adequate maintenance and insurance;
- customer turnover;
- general overbuilding or excess supply in the market areas;
- disruptions in the global supply chain caused by political, regulatory or other factors including terrorism;
- shifts in space utilization by tenants due to changes in technology; and
- changes in tax policies affecting real estate.

In addition, periods of economic slowdown or recession, rising interest rates or declining demand for real estate, or public perception that any of these events may occur, could result in a general decrease in rents or an increased occurrence of defaults under existing leases, which would adversely affect our financial condition and results of operations. Future terrorist attacks may result in declining economic activity, which could reduce the demand for, and the value of, our properties. To the extent that future attacks impact our customers, their businesses similarly could be adversely affected, including their ability to continue to honor their existing leases.

For these and other reasons, we cannot assure our stockholders that we will be profitable or that we will realize growth in the value of our real estate properties.

Actions by our competitors may decrease or prevent increases in the occupancy and rental rates of our properties.

We compete with other developers, owners and operators of real estate. If our competitors offer space at rental rates or terms more attractive than we currently offer to our customers, we may lose customers or we may be pressured to reduce our rental rates or provide more favorable lease terms. As a result, our financial condition, cash flows, cash available for distribution, trading price of our common stock and ability to satisfy our debt service obligations could be materially adversely affected.

We are dependent on customers for our revenues.

Lease payment or performance defaults by customers could adversely affect our financial condition and cause us to reduce the amount of distributions to stockholders. A default by a customer on its lease payments could force us to find an alternative source of cash flow to pay operating expenses and any mortgage loan on the property. In the event of a customer default, we may experience delays in enforcing our rights as landlord and may incur substantial costs, including litigation and related expenses, in protecting our investment and re-leasing our property. If a lease is terminated, we may be unable to lease the property for the rent previously received or sell the property without incurring a loss.

Our ability to renew leases or re-lease space on favorable terms as leases expire significantly affects our business.

Our results of operations, distributable cash flows and the value of our common stock would be adversely affected if we are unable to lease, on economically favorable terms, a significant amount of space in our properties.

We may be unable to sell or re-lease a property if or when we decide to do so, including as a result of uncertain market conditions or vacancy, which could adversely affect the return on an investment in our common stock.

We expect to hold the various properties in which we invest until such time as we decide that a sale or other disposition is appropriate given our investment objectives. Our ability to dispose of properties on advantageous terms depends on factors beyond our control, including competition from other sellers, the availability of attractive financing for potential buyers of our properties and the rate of occupancy of the property. We cannot predict the various market conditions affecting real estate investments which will exist at any particular time in the future. Due to the uncertainty of market conditions which may affect the future disposition of our properties, we cannot assure our stockholders that we will be able to sell our properties at a profit in the future. Accordingly, the extent to which our stockholders will receive cash distributions and realize potential appreciation on our real estate investments will be dependent upon fluctuating market conditions.

Furthermore, we may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot assure our stockholders that we will have funds available to correct such defects or to make such improvements. In acquiring a property, we may agree to restrictions that prohibit the sale of that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. These provisions could restrict our ability to sell a property and could affect cash available for distributions to our stockholders, or limit our ability to take other actions that could otherwise be in the best interest of our stockholders.

A property may incur a vacancy either by the continued default of a customer under its lease or the expiration of one of our leases. We have significant lease expirations in 2018 and subsequent years, as outlined in “Item 2, Properties - Lease Expirations.” In addition, certain of the properties we acquire may have some level of vacancy at the time of closing. We may have difficulty obtaining a new customer for any vacant space we have in our properties. If the vacancy continues for a long period of time, we may suffer reduced revenues resulting in less cash available to be distributed to stockholders. In addition, the resale value of a property could be diminished because of vacancy.

The fact that real estate investments are not as liquid as other types of assets may reduce economic returns to investors.

Real estate investments are not as liquid as other types of investments, and this lack of liquidity may limit our ability to react promptly to changes in economic or other conditions. Thus, our ability at any time to sell assets or contribute assets to property funds or other entities in which we have an ownership interest may be restricted by the potential for the imposition of the 100% “prohibited transactions” tax on gains from certain dispositions of property by REIT’s unless a safe harbor exception applies. This lack of liquidity may limit our ability to change our portfolio composition promptly in response to changes in economic or other conditions and, as a result, could adversely affect our financial condition, results of operations, cash flows and our ability to pay distributions on, and the market price of, our common stock.

Delays in acquisition and development of properties may have adverse effects.

Delays we encounter in the selection, acquisition, development and leasing of properties could adversely affect our returns. Where land is acquired for purposes of developing a new property prior to the start of construction, it will typically take 12 to 18 months to complete construction and lease up the newly completed building.

Uninsured losses relating to real property may adversely affect our returns.

We attempt to ensure that all of our properties are adequately insured to cover casualty losses. However, there are certain losses, including losses from floods and/or wind (Houston, Miami and Orlando), earthquakes (California and Washington State), acts of war, acts of terrorism or riots, that are not generally insured against or that are not generally fully insured against (due to coverage limitations and deductibles that we believe are not commercially reasonable) because it is not deemed economically feasible or prudent to do so. In addition, changes in the cost or availability of insurance could expose us to uninsured losses. In the event that any of our properties incurs a loss that is not fully covered by insurance, the value of our assets will be reduced, and we could experience a significant loss of capital invested and potential revenues in these properties and could potentially remain obligated under any recourse debt associated with the property. Any such losses could adversely affect our financial condition, results of operations, cash flows and ability to pay dividends, and/or the market price of our common stock. In addition, we may have no source of funding to repair or reconstruct the damaged property, and we cannot assure that any such sources of funding will be available to us for such purposes in the future. We evaluate our insurance coverage annually in light of current industry practice through an analysis prepared by outside consultants.

Contingent or unknown liabilities could adversely affect our financial condition.

We have acquired and may in the future acquire properties without any recourse, or with only limited recourse, with respect to unknown or contingent liabilities, including, without limitation, environmental liabilities. As a result, if a claim was asserted against us based upon current or previous ownership of any of these properties or related entities, we might have to pay substantial sums to defend or settle it which could adversely affect our cash flows.

Environmentally hazardous conditions may adversely affect our operating results.

Under various federal, state and local environmental laws, a current or previous owner or operator of real property may be liable for the cost of maintaining, removing or remediating hazardous or toxic substances, including, without limitation, asbestos, on such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Even if more than one person may have been responsible for the contamination, a single person may be held responsible for all of the clean-up costs incurred. In addition, third-parties may sue the owner or operator of a site for damages based on personal injury, natural resources, property damage or other costs, including investigation and clean-up costs, resulting from the environmental contamination. The presence of hazardous or toxic substances on one of our properties, or the failure to properly maintain or remediate a contaminated property, could give rise to a lien in favor of a government entity for costs it may incur to address the contamination, or otherwise could adversely affect our ability to sell or lease the property or borrow using the property as collateral. Environmental laws also may impose restrictions on the manner in which a property may be used or businesses may be operated. A property owner who violates environmental laws may be subject to sanctions enforceable by governmental agencies or, in certain circumstances, private parties. In connection with the acquisition and ownership of our properties, we may be exposed to such costs. The cost of defending environmental claims, of complying with environmental regulatory requirements or of remediating any contaminated property could materially adversely affect our business, assets or results of operations and, consequently, amounts available for distribution to our stockholders.

We invest in properties historically used for industrial, manufacturing and commercial purposes. Some of these properties contain, or may have contained, underground storage tanks for the storage of petroleum products and other hazardous or toxic substances. All of these operations create a potential for the release of petroleum products or other hazardous or toxic substances. Some of our properties are adjacent to or near other properties that may have contained or currently contain underground storage tanks used to store petroleum products, or other hazardous or toxic substances. In addition, previous or current occupants of our properties and adjacent properties may have engaged, or may in the future engage, in activities that may release petroleum products or other hazardous or toxic substances.

We maintain a portfolio environmental insurance policy that provides coverage for potential environmental liabilities, subject to the policy's coverage conditions and limitations, for most of our properties. From time to time, we may acquire properties or interests in properties, with known adverse environmental conditions where we believe that the environmental liabilities associated with these conditions are quantifiable and that the acquisition will yield a superior risk-adjusted return. In such an instance, we underwrite the costs of environmental investigation, clean-up and monitoring into the cost. Further, in connection with property dispositions, we may agree to remain responsible for, and to bear the cost of, remediating or monitoring certain environmental conditions on the properties.

All of our properties were subject to a Phase I or similar environmental assessment by independent environmental consultants at the time of acquisition. Phase I assessments are intended to discover and evaluate information regarding the environmental condition of the surveyed property and surrounding properties. Phase I assessments generally include a historical review, a public records review, an investigation of the surveyed site and surrounding properties, and preparation and issuance of a written report, but do not include soil sampling or subsurface investigations and typically do not include an asbestos survey. While some of these assessments have led to further investigation and sampling, none of our environmental assessments of our properties have revealed an environmental liability that we believe would have a material adverse effect on our business, financial condition or results of operations taken as a whole. However, we cannot give any assurance that such conditions do not exist or may not arise in the future. Material environmental conditions, liabilities or compliance concerns may arise after the environmental assessment has been completed. Moreover, there can be no assurance that (i) future laws, ordinances or regulations will not impose any material environmental liability or (ii) the current environmental condition of our properties will not be affected by customers, by the condition of land or operations in the vicinity of our properties (such as releases from underground storage tanks), or by third-parties unrelated to us. In addition, the presence of hazardous or toxic substances, or the failure to properly remediate these substances, may adversely affect our ability to sell, rent or pledge such property as collateral for future borrowings.

Costs of complying with governmental laws and regulations may adversely affect our income and the cash available for any distributions.

All real property and the operations conducted on real property are subject to federal, state and local laws and regulations, including environmental laws and regulations and the Americans with Disabilities Act. Customers' ability to operate and to generate income to pay their lease obligations may be affected by permitting and compliance obligations arising under such laws and regulations. Some of these laws and regulations may impose joint and several liability on customers, owners or operators for the costs of non-compliance, regardless of fault or whether the failure to comply was legal. Leasing properties to customers that engage in industrial, manufacturing, and commercial activities will cause us to be subject to the risk of liabilities under environmental laws and regulations.

Some of these laws and regulations have been amended so as to require compliance with new or more stringent standards as of future dates. Compliance with new or more stringent laws or regulations or stricter interpretation of existing laws may require us to incur material expenditures. Future laws, ordinances or regulations may impose material liability. Additionally, our customers' operations, the existing condition of land when we buy it, operations in the vicinity of our properties, such as the presence of underground storage tanks, or activities of unrelated third-parties may affect our properties. In addition, there are various local, state and federal fire, health, life-safety and similar regulations with which we may be required to comply and which may subject us to liability in the form of fines or damages for noncompliance. Any material expenditures, fines or damages we must pay could reduce our ability to make distributions and may reduce the value of our common stock.

We could face possible risks associated with climate change.

The physical effects of climate change, were it to occur in a negative manner, could have a material adverse effect on our properties, operations and business. To the extent climate change causes changes in weather patterns, our markets could experience negative impact. This impact could result in declining demand for industrial space in our buildings or our inability to operate the buildings at all. Climate change may also have indirect effects on our business by increasing the cost of (or making unavailable) property insurance on terms we find acceptable, increasing the cost of energy, increasing the cost of building materials, and increasing the cost of snow removal at our properties.

RISKS RELATED TO OUR DEBT FINANCINGS

Our operating results and financial condition could be adversely affected if we are unable to make required payments on our debt.

Our charter and bylaws do not limit the amount or percentage of indebtedness that we may incur, and we are subject to risks normally associated with debt financing, including the risk that our cash flows will be insufficient to meet required payments of principal and interest. There can be no assurance that we will be able to refinance any maturing indebtedness, that such refinancing would be on terms as favorable as the terms of the maturing indebtedness or that we will be able to otherwise obtain funds by selling assets or raising equity to make required payments on maturing indebtedness.

In particular, loans obtained to fund property acquisitions may be secured by first mortgages on such properties. If we are unable to make our debt service payments as required, a lender could foreclose on the property or properties securing its debt. This could cause us to lose part or all of our investment, which in turn could cause the value of our common stock and distributions payable to stockholders to be reduced. Certain of our existing and future indebtedness is and may be cross-collateralized and, consequently, a default on this indebtedness could cause us to lose part or all of our investment in multiple properties.

Increases in interest rates could increase the amount of our debt payments or make it difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire and adversely affect our ability to make distributions to our stockholders.

We have incurred and may continue to incur variable rate debt whereby increases in interest rates raise our interest costs, which reduces our cash flows and our ability to make distributions to our stockholders. If we are unable to refinance our indebtedness at maturity or meet our payment obligations, the amount of our distributable cash flows and our financial condition would be adversely affected, and the property securing such indebtedness may be sold on terms that are not advantageous to us or lost through foreclosure. Similarly, if debt is unavailable at reasonable rates, we may not be able to finance the purchase of properties. In addition, if we need to repay existing debt during periods of rising interest rates, we could be required to liquidate one or more of our investments in properties at times which may not permit realization of the maximum return on such investments.

Covenants in our credit agreements could limit our flexibility and adversely affect our financial condition.

The terms of our bank unsecured credit facilities and other indebtedness require us to comply with a number of customary financial and other covenants, such as covenants with respect to consolidated leverage, net worth and unencumbered assets. These covenants may limit our flexibility in our operations, and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness even if we have satisfied our payment obligations. As of December 31, 2017, we had certain non-recourse, secured loans which are cross-collateralized by multiple properties. If we default on any of these loans we may then be required to repay such indebtedness, together with applicable prepayment charges, to avoid foreclosure on all cross-collateralized properties within the applicable pool. In addition, our senior credit facility contains certain cross-default provisions which are triggered in the event that our other material indebtedness is in default. These cross-default provisions may require us to repay or restructure the senior credit facility in addition to any mortgage or other debt that is in default. If our properties were foreclosed upon, or if we are unable to refinance our indebtedness at maturity or meet our payment obligations, the amount of our distributable cash flows and our financial condition would be adversely affected.

If we enter into financing arrangements involving balloon payment obligations, it may adversely affect our ability to make distributions.

Some of our financing arrangements may require us to make a lump-sum or “balloon” payment at maturity. Our ability to make a balloon payment at maturity is uncertain and may depend upon our ability to obtain additional financing or our ability to sell the property. At the time the balloon payment is due, we may or may not be able to refinance the existing financing on terms as favorable as the original loan or sell the property at a price sufficient to make the balloon payment. The effect of a refinancing or sale could affect the rate of return to stockholders and the projected time of disposition of our assets. In addition, payments of principal and interest made to service our debts may leave us with insufficient cash to pay the distributions that we are required to pay to maintain our qualification as a REIT.

RISKS RELATED TO OUR CORPORATE STRUCTURE

Our charter and Maryland law contain provisions that may delay, defer or prevent a change of control transaction.

Our charter contains a 9.8% ownership limit.

Our charter, subject to certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT and to limit any person to actual or constructive ownership of no more than 9.8% by value or number of shares, whichever is more restrictive, of any class or series of our outstanding shares of capital stock. Our board of directors and/or management, in its sole discretion, may exempt, subject to the satisfaction of certain conditions, any person from the ownership limit. However, our board of directors and/or management may not grant an exemption from the ownership limit to any person whose ownership, direct or indirect, in excess of 9.8% by value or number of shares of any class or series of our outstanding shares of capital stock could jeopardize our status as a REIT. These restrictions on transferability and ownership will not apply if our board of directors determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT. The ownership limit may delay or impede a transaction or a change of control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Provisions which may limit the ability of a third-party to acquire control of our Company.

Certain provisions of Maryland law may have the effect of inhibiting a third-party from making a proposal to acquire us or of impeding a change of control under certain circumstances that otherwise could provide the holders of shares of our common stock with the opportunity to realize a premium over the then prevailing market price of such shares. Our charter, our bylaws and the limited partnership agreement of our operating partnership may also contain provisions that may delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Our board of directors can take many actions without stockholder approval.

Our board of directors has overall authority to oversee our operations and determine our major corporate policies. This authority includes significant flexibility. For example, our board of directors can do the following:

- issue additional shares without obtaining stockholder approval, which could dilute the ownership of our then-current stockholders;
- amend our charter to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series, without obtaining stockholder approval;
- classify or reclassify any unissued shares of our common stock or preferred stock and set the preferences, rights and other terms of such classified or reclassified shares, without obtaining stockholder approval;
- change our investment strategy and enter into new lines of business that are different from, and possibly riskier than, the investments and businesses described elsewhere in this document;
- direct our resources toward investments that do not ultimately appreciate over time;
- change creditworthiness standards with respect to third-party customers; and

Some of these actions by our board of directors could delay, defer or prevent a change of control of our Company.

Our rights and the rights of our stockholders to take action against our directors and officers are limited.

Maryland law provides that a director or officer has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our charter eliminates our directors' and officers' liability to us and our stockholders for money damages except for liability resulting from actual receipt of an improper benefit or profit in money, property or services or active and deliberate dishonesty established by a final judgment and which is material to the cause of action. Our bylaws require us to indemnify our directors and officers to the maximum extent permitted by Maryland law for liability actually incurred in connection with any proceeding to which they may be made, or threatened to be made, a party, except to the extent that the act or omission of the director or officer was material to the matter giving rise to the proceeding and was either committed in bad faith or was the result of active and deliberate dishonesty; the director or officer actually received an improper personal benefit in money, property or services; or, in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist under common law. In addition, we may be obligated to fund the defense costs incurred by our directors and officers.

FEDERAL INCOME TAX RISKS

Failure to qualify as a REIT could adversely affect our operations and our ability to make distributions.

We operate in a manner so as to qualify as a REIT for U.S. federal income tax purposes. Our qualification as a REIT will depend on our satisfaction of numerous requirements (some on an annual and quarterly basis) established under highly technical and complex provisions of the Code for which there are only limited judicial or administrative interpretations, and involves the determination of various factual matters and circumstances not entirely within our control. The fact that we hold substantially all of our assets through our operating partnership and its subsidiaries further complicates the application of the REIT requirements for us. No assurance can be given that we will qualify as a REIT for any particular year. If we were to fail to qualify as a REIT in any taxable year for which a REIT election has been made, we would not be allowed a deduction for dividends paid to our stockholders in computing our taxable income and would be subject to federal income tax, including any applicable alternative minimum tax (which, for corporations, was repealed for tax years beginning after December 31, 2017 under the TCJA, as defined below), on our taxable income at corporate rates unless certain relief provision apply. As a consequence, we would not be compelled to make distributions under the Code. Moreover, unless we were to obtain relief under certain statutory provisions, we would also be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost. This treatment would reduce our net earnings available for investment or distribution to our stockholders because of the additional tax liability to us for the years involved. As a result of the additional tax liability, we might need to borrow funds or liquidate certain investments on terms that may be disadvantageous to us in order to pay the applicable tax. If we fail to qualify as a REIT but are eligible for certain relief provisions, then we may retain our status as a REIT but may be required to pay a penalty tax, which could be substantial.

To qualify as a REIT, we must meet annual distribution requirements.

To obtain the favorable tax treatment accorded to REITs, among other requirements, we normally will be required each year to distribute to our stockholders at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and by excluding net capital gains. We will be subject to federal income tax on our undistributed taxable income and net capital gain. In addition, if we fail to distribute during each calendar year at least the sum of (a) 85% of our ordinary income for such year, (b) 95% of our capital gain net income for such year, and (c) any undistributed taxable income from prior periods, we will be subject to a 4% excise tax on the excess of the required distribution over the sum of (i) the amounts actually distributed by us, plus (ii) retained amounts on which we pay income tax at the corporate level. We intend to make distributions to our stockholders to comply with the requirements of the Code for REITs and to minimize or eliminate our corporate income tax obligation. However, differences between the recognition of taxable income and the actual receipt of cash could require us to sell assets or borrow funds on a short-term or long-term basis or partially pay dividends in shares of our common stock to meet the distribution requirements of the Code. Certain types of assets generate substantial mismatches between taxable income and available cash. Such assets include rental real estate that has been financed through financing structures which require some or all of available cash flows to be used to service borrowings. As a result, the requirement to distribute a substantial portion of our taxable income could cause us to: (1) sell assets in adverse market conditions, (2) borrow on unfavorable terms or (3) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt, in order to comply with REIT requirements. Further, amounts distributed will not be available to fund our operations.

Tax legislation or regulatory action could adversely affect us or our investors.

On December 22, 2017, President Trump signed into law H.R. 1, informally titled the Tax Cuts and Jobs Act (the “TCJA”). The TCJA makes major changes to the Code, including a number of provisions of the Code that affect the taxation of REITs and their stockholders. Among the changes made by the TCJA are permanently reducing the generally applicable corporate tax rate, generally reducing the tax rate applicable to individuals and other non-corporate taxpayers for tax years beginning after December 31, 2017 and before January 1, 2026, eliminating or modifying certain previously allowed deductions (including substantially limiting interest deductibility and, for individuals, the deduction for non-business state and local taxes), and, for taxable years beginning after December 31, 2017 and before January 1, 2026, providing for preferential rates of taxation through a deduction of up to 20% (subject to certain limitations) on most ordinary REIT dividends and certain trade or business income of non-corporate taxpayers. The TCJA also imposes new limitations on the deduction of net operating losses, which may result in us having to make additional taxable distributions to our stockholders in order to comply with REIT distribution requirements or avoid taxes on retained income and gains. The effect of the significant changes made by the TCJA is highly uncertain, and administrative guidance will be required in order to fully evaluate the effect of many provisions. The effect of any technical corrections with respect to the TCJA could have an adverse effect on us or our stockholders. Investors should consult their tax advisors regarding the implications of the TCJA on their investment in our common stock or debt securities.

Distributions payable by REITs do not qualify for the reduced tax rates that apply to certain other corporate distributions.

Certain distributions payable by corporations to individuals subject to tax as “qualified dividend income” are subject to reduced tax rates applicable to long-term capital gain. Distributions payable by REITs, however, generally continue to be taxed at the normal rate applicable to the individual recipient rather than the preferential long-term capital gain rate (though under the TCJA, individuals, trusts, and estates generally may deduct up to 20% of ordinary REIT dividends). While the preferential tax rate on certain corporate distributions does not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rates applicable to regular corporate distributions could cause investors who are individuals to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay distributions, which could adversely affect the value of the stock of REITs, including our common stock.

In certain circumstances, we may be subject to federal and state income taxes, which would reduce our cash available for distribution to our stockholders.

Even if we qualify and maintain our status as a REIT, we may be subject to federal income taxes or state taxes in various circumstances. For example, net income from a “prohibited transaction” will be subject to a 100% tax. In addition, we may not be able to distribute all of our income in any given year, which would result in corporate level taxes, and we may not make sufficient distributions to avoid excise taxes. We may also decide to retain certain gains from the sale or other disposition of our property and pay income tax directly on such gains. In that event, our stockholders would be required to include such gains in income and would receive a corresponding credit for their share of taxes paid by us. We may also be subject to U.S. state and local taxes on our income or property, either directly or at the level of our operating partnership or at the level of the other entities through which we indirectly own our assets. In addition, any net taxable income earned directly by any of our taxable REIT subsidiaries, which we refer to as TRSs, will be subject to federal and state corporate income tax. In addition, we may be subject to federal or state taxes in other various circumstances. Any taxes we pay will reduce our cash available for distribution to our stockholders.

If our operating partnership was classified as a “publicly traded partnership” under the Code, our status as a REIT and our ability to pay distributions to our stockholders could be adversely affected.

Our operating partnership is organized as a partnership for U.S. federal income tax purposes. Even though our operating partnership will not elect to be treated as an association taxable as a corporation, it may be taxed as a corporation if it is deemed to be a “publicly traded partnership.” A publicly traded partnership is a partnership whose interests are traded on an established securities market or are considered readily tradable on a secondary market or the substantial equivalent thereof. We believe and currently take the position that our operating partnership should not be classified as a publicly traded partnership because interests in our operating partnership are not traded on an established securities market, and our operating partnership should satisfy certain safe harbors which prevent a partnership’s interests from being treated as readily tradable on an established securities market or substantial equivalent thereof. No assurance can be given, however, that the IRS would not assert that our operating partnership constitutes a publicly traded partnership or that facts and circumstances will not develop which could result in our operating partnership being treated as a publicly traded partnership. If the IRS were to assert successfully that our operating partnership is a publicly traded partnership, and substantially all of our operating partnership’s gross income did not consist of the specified types of passive income, our operating partnership would be treated as an association taxable as a corporation and would be subject to corporate tax at the entity level. In such event, the character of our assets and items of gross income would change and would result in a termination of our status as a REIT. In addition, the imposition of a corporate tax on our operating partnership would reduce the amount of cash available for distribution to our stockholders.

Certain property transfers may generate prohibited transaction income, resulting in a penalty tax on gain attributable to the transaction.

From time to time, we may transfer or otherwise dispose of some of our properties, including the contribution of properties to our joint venture funds or other commingled investment vehicles. Under the Code, any gain resulting from transfers of properties that we hold as inventory or primarily for sale to customers in the ordinary course of business would be treated as income from a prohibited transaction subject to a 100% penalty tax, unless a safe harbor exception applies. Since we acquire properties for investment purposes, we do not believe that our occasional transfers or disposals of property or our contributions of properties into our joint venture funds, or commingled investment vehicles, are properly treated as prohibited transactions. However, whether property is held for investment purposes is a question of fact that depends on all the facts and circumstances surrounding the particular transaction. The IRS may contend that certain transfers or disposals of properties by us or contributions of properties into our joint venture funds are prohibited transactions if they do not meet the safe harbor requirements. While we believe that the IRS would not prevail in any such dispute, if the IRS were to argue successfully that a transfer or disposition or contribution of property constituted a prohibited transaction, we would be required to pay a 100% penalty tax on any gain allocable to us from the prohibited transaction. In addition, income from a prohibited transaction might adversely affect our ability to satisfy the income tests for qualification as a real estate investment trust for federal income tax purposes.

If a transaction intended to qualify as a Section 1031 exchange is later determined to be taxable, we may face adverse consequences, and if the laws applicable to such transactions are amended or repealed, we may not be able to dispose of properties on a tax deferred basis.

From time to time we may dispose of properties in transactions that are intended to qualify as an exchange pursuant to Section 1031 of the Code (a “Section 1031 Exchange”). It is possible that the qualification of a transaction as a Section 1031 Exchange could be successfully challenged and determined to be currently taxable. In such case, our taxable income and earnings and profits would increase. This could increase the dividend income to our stockholders by reducing any return of capital they received. In some circumstances, we may be required to pay additional dividends or, in lieu of that, corporate income tax, possibly including interest and penalties. As a result, we may be required to borrow funds in order to pay additional dividends or taxes, and the payment of such taxes could cause us to have less cash available to distribute to our stockholders. In addition, if a Section 1031 Exchange were later to be determined to be taxable, we may be required to amend our tax returns for the applicable year in question, including any information reports we sent our stockholders. Moreover, it is possible that legislation could be enacted that could modify or repeal the laws with respect to Section 1031 Exchanges, which could make it more difficult or not possible for us to dispose of properties on a tax deferred basis.

Foreign investors may be subject to the Foreign Investment Real Property Tax Act, or FIRPTA, which would impose tax on certain distributions and on the sale of common stock if we are unable to qualify as a “domestically controlled” REIT or if our stock is not considered to be regularly traded on an established securities market.

A foreign person disposing of a U.S. real property interest, including shares of a U.S. corporation whose assets consist principally of U.S. real property interests or USRPIs is generally subject to a tax, known as FIRPTA tax, on the gain recognized on the disposition. Such FIRPTA tax does not apply, however, to the disposition of stock in a REIT if the REIT is a “domestically controlled qualified investment entity.” A domestically controlled qualified investment entity includes a REIT in which, at all times during a specified testing period, less than 50% of the value of its shares is held directly or indirectly by non-U.S. holders. In the event that we do not constitute a domestically controlled qualified investment entity, a person’s sale of stock nonetheless will generally not be subject to tax under FIRPTA as a sale of a USRPI, provided that (1) the stock owned is of a class that is “regularly traded” as defined by applicable Treasury regulations, on an established securities market, and (2) the selling non-U.S. holder held 10% or less of our outstanding stock of that class at all times during a specified testing period. If we were to fail to so qualify as a domestically controlled qualified investment entity and our common stock were to fail to be “regularly traded,” gain realized by a foreign investor on a sale of our common stock would be subject to FIRPTA tax and applicable withholding. No assurance can be given that we will be a domestically controlled qualified investment entity. Additionally, any distributions we make to our non-U.S. stockholders that are attributable to gain from the sale of any USRPI will also generally be subject to FIRPTA tax and applicable withholdings, unless the recipient non-U.S. stockholder has not owned more than 10% of our common stock at any time during the year preceding the distribution and our common stock is treated as being “regularly traded”.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Geographic Distribution

The following table presents the geographic diversification of our consolidated operating portfolio as of December 31, 2017:

Markets	Number of Buildings	Square Feet	Percentage of Total Square Feet		Occupancy Percentage [1]		Annualized Base Rent [2][3]	Percentage of Total Annualized Base Rent	
CONSOLIDATED OPERATING PORTFOLIO:[4]		(in thousands)					(in thousands)		
Atlanta	36	7,895	11.7	%	98.3	%	$ 27,929	8.7	%
Baltimore/Washington D.C.	18	2,164	3.2	%	97.6	%	14,930	4.7	%
Charlotte[5]	1	472	0.7	%	100.0	%	1,698	0.5	%
Memphis[5]	2	1,385	2.1	%	100.0	%	2,804	0.9	%
Miami[6]	11	1,442	2.0	%	100.0	%	11,857	3.7	%
Nashville	4	2,064	3.1	%	100.0	%	7,044	2.2	%
New Jersey	8	1,313	2.0	%	100.0	%	8,134	2.5	%
Orlando	21	1,864	2.8	%	96.6	%	8,658	2.7	%
Pennsylvania	13	3,038	4.5	%	95.4	%	14,241	4.5	%
East Segment Subtotal	114	21,637	32.1	%	98.2	%	97,295	30.4	%
Chicago	38	8,335	12.4	%	95.1	%	37,702	11.8	%
Cincinnati	29	3,177	4.7	%	100.0	%	11,983	3.8	%
Dallas	40	5,965	8.9	%	100.0	%	22,715	7.1	%
Houston	37	4,538	6.8	%	95.8	%	26,695	8.3	%
Indianapolis	2	844	1.3	%	100.0	%	3,505	1.1	%
Central Segment Subtotal	146	22,859	34.1	%	97.4	%	102,600	32.1	%
Denver	7	969	1.4	%	92.1	%	4,670	1.5	%
Northern California	28	4,339	6.5	%	99.7	%	26,631	8.3	%
Phoenix	22	2,024	3.0	%	93.9	%	9,227	2.9	%
Seattle	31	4,089	6.1	%	98.7	%	23,654	7.4	%
Southern California[6]	50	9,197	13.7	%	98.4	%	54,831	17.1	%
West Segment Subtotal	138	20,618	30.7	%	98.0	%	119,013	37.2	%
Total/weighted average – operating portfolio	398	65,114	96.9	%	97.8	%	318,908	99.7	%
DEVELOPMENT PROPERTIES:									
Chicago	2	307	0.5	%	0.0	%	—	0.0	%
Dallas	2	383	0.6	%	29.6	%	428	0.1	%
Denver	1	168	0.2	%	0.0	%	—	0.0	%
Miami	1	136	0.2	%	85.6	%	—	0.0	%
Total/weighted average – development properties	6	994	1.5	%	23.1	%	428	0.1	%
REDEVELOPMENT PROPERTIES:									
Orlando	1	121	0.2	%	0.0	%	—	0.0	%
Total/weighted average – redevelopment properties	1	121	0.2	%	0.0	%	—	0.0	%
VALUE-ADD ACQUISITIONS:									
Chicago	1	787	1.1	%	0.0	%	—	0.0	%

Denver	2	190	0.3	%	70.6	%	513	0.2	%
Total/weighted average – value-add acquisitions	3	977	1.4	%	13.7	%	513	0.2	%
Total/weighted average – consolidated properties	408	67,206	100.0	%	95.3	%	$ 319,849	100.0	%

(See footnote definitions on next page)

The following table presents the geographic diversification of our investments in unconsolidated operating portfolio as of December 31, 2017:

Markets	Number of Buildings	Percentage Owned [7]		Square Feet	Percentage of Total Square Feet		Occupancy Percentage [1]		Annualized Base Rent [2]	Percentage of Total Annualized Base Rent	
UNCONSOLIDATED JOINT VENTURES:[8]				(in thousands)					(in thousands)		
OPERATING PORTFOLIO IN UNCONSOLIDATED JOINT VENTURE:											
Southern California Logistics Airport[9]	8	50.0	%	2,975	39.2	%	99.9	%	$ 11,728	38.7	%
Total/weighted average – unconsolidated operating properties	8	50.0	%	2,975	39.2	%	99.9	%	11,728	38.7	%
OPERATING PORTFOLIO IN CO-INVESTMENT VENTURE:											
Chicago	2	20.0	%	1,033	13.6	%	94.1	%	4,145	13.7	%
Cincinnati	1	20.0	%	543	7.2	%	100.0	%	2,189	7.2	%
Dallas	1	20.0	%	540	7.1	%	100.0	%	1,839	6.1	%
Denver	5	20.0	%	773	10.2	%	100.0	%	4,347	14.3	%
Nashville	2	20.0	%	1,020	13.5	%	100.0	%	2,981	9.8	%
Orlando	2	20.0	%	696	9.2	%	91.4	%	3,098	10.2	%
Total/weighted average – co-investment operating properties	13	20.0	%	4,605	60.8	%	97.4	%	18,599	61.3	%
Total/weighted average – unconsolidated properties	21	31.8	%	7,580	100.0	%	98.4	%	$ 30,327	100.0	%

(1) Based on leases commenced as of December 31, 2017.

(2) Annualized base rent is calculated as monthly contractual base rent (cash basis) per the terms of the lease, as of December 31, 2017, multiplied by 12.

(3) Excludes total annualized base rent associated with tenants currently in free rent periods of $6.1 million, which excludes free rent related to developments, Redevelopments and Value-Add Acquisitions not stabilized during the three months ended December 31, 2017, based on the first month of cash base rent.

(4) Includes properties presented in assets held for sale in our Consolidated Balance Sheets.

(5) The Company exited the Charlotte and Memphis markets upon the disposition of its remaining properties in January 2018.

(6) As of December 31, 2017, our ownership interest in the Miami and Southern California properties was 99.6% and 95.4%, respectively based on our equity ownership weighted by square feet.

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

(8) Our economic interest in unconsolidated joint ventures (as distinct from our legal ownership interest) may fluctuate from time to time and may not wholly align with our legal ownership interests because of provisions in certain joint venture agreements regarding distributions of cash flow, allocations of profits and losses, payments of preferred returns and control over major decisions. Additionally, DCT Industrial does not control our unconsolidated joint ventures and the presentation of certain items, such as assets, liabilities, revenues and expenses, from these unconsolidated joint ventures does not represent our legal claim or obligation for such items.

(9) 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.

Indebtedness

As of December 31, 2017, 42 of our 408 consolidated properties, with a combined gross book value of approximately $0.5 billion, were encumbered by mortgage indebtedness totaling $159.1 million (excluding net premiums and net deferred loan costs). See “Notes to Consolidated Financial Statements, Note 6 – Outstanding Indebtedness” and the accompanying Schedule III beginning on page F-47 for additional information.

Lease Expirations

Our industrial properties are leased to customers for terms generally ranging from 3 to 10 years with a weighted average remaining term of approximately 4.1 years as of December 31, 2017. The following table presents a schedule of expiring leases for our consolidated properties by square feet and by annualized base rent as of December 31, 2017, assuming no exercise of lease renewal options, if any (dollar amounts and square feet in thousands):

Year	Square Feet Related to Expiring Leases	Percentage of Total Square Feet[(1)]		Annualized Base Rent of Expiring Leases[(2)]	Percentage of Total Annualized Base Rent	
2018[(3)]	5,318	8.3	%	$ 26,578	7.4	%
2019	9,935	15.5	%	47,166	13.1	%
2020	8,737	13.6	%	47,332	13.2	%
2021	11,209	17.5	%	64,837	18.1	%
2022	9,084	14.2	%	51,259	14.3	%
2023	7,196	11.2	%	38,820	10.8	%
2024	3,761	5.9	%	20,999	5.9	%
2025	1,910	3.0	%	11,755	3.3	%
2026	3,556	5.5	%	21,339	5.9	%
2027	2,046	3.2	%	15,145	4.2	%
Thereafter	1,323	2.1	%	13,610	3.8	%
Total occupied	64,075	100.0	%	$ 358,840	100.0	%
Available or leased but not occupied	3,131					
Total consolidated properties	67,206					

(1) Percentage is based on consolidated occupied square feet as of December 31, 2017.

(2) Annualized base rent includes contractual rents in effect at the date of the lease expiration.

(3) Includes leases with an initial term of less than one year.

Customer Diversification

As of December 31, 2017, there were no customers that occupied more than 3.4% of our consolidated properties based on annualized base rent. The following table presents our 10 largest customers, based on annualized base rent as of December 31, 2017, who occupy a combined 11.1 million square feet, or 16.6%, of our consolidated properties and 18.7% of annualized base rent.

Customer	Percentage of Annualized Base Rent		Percentage of Square Feet	
Amazon.com, Inc.	3.4	%	2.3	%
Distributions Alternatives, Inc.	3.1	%	3.3	%
FedEx Corporation	2.9	%	1.4	%
Geodis	1.8	%	2.0	%
United Parcel Service, Inc.	1.7	%	1.5	%
Stanley Black & Decker, Inc.	1.5	%	1.4	%
Deutsche Post DHL Group	1.1	%	1.1	%
Schenker, Inc.	1.1	%	0.8	%
The J. M. Smucker Company	1.1	%	1.6	%
Kellogg Company	1.0	%	1.2	%
Total	18.7	%	16.6	%

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 files bankruptcy and cancels its leases, we could experience a reduction in our revenues and an increase in our allowance for doubtful accounts receivable.

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

Industry Diversification

The table below presents the diversification of our consolidated portfolio by the industry classification of our customers based upon their NAICS code as of December 31, 2017 (dollar amounts and square feet in thousands):

	Number of Leases	Annualized Base Rent[(1)]	Percentage of Total Annualized Base Rent	Occupied Square Feet[(2)]	Percentage of Total Occupied Square Feet
Manufacturing	265	$ 106,444	33.3 %	22,633	35.3 %
Wholesale Trade	192	54,609	17.1 %	12,300	19.2 %
Transportation and Warehousing	114	59,233	18.5 %	10,143	15.8 %
Professional, Scientific, and Technical Services	82	42,566	13.3 %	8,526	13.3 %
Retail Trade	72	24,431	7.6 %	4,944	7.7 %
Media and Information	22	6,641	2.1 %	887	1.4 %
Administrative Support and Waste Management Services	27	5,204	1.6 %	1,201	1.9 %
Health Care and Social Assistance	10	4,284	1.3 %	601	0.9 %
Rental Companies	13	2,217	0.7 %	390	0.6 %
Other	74	14,220	4.5 %	2,450	3.9 %
Total	871	$ 319,849	100.0 %	64,075	100.0 %

(1) Annualized base rent is calculated as monthly contractual base rent (cash basis) per the terms of the lease, as of December 31, 2017, multiplied by 12.

(2) Based on leases commenced as of December 31, 2017.

ITEM 3. LEGAL PROCEEDINGS

We are a party to various legal actions and administrative proceedings arising in the ordinary course of business, some of which may be covered by liability insurance, and none of which we expect to have a material adverse effect on our consolidated financial condition or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

DCT

Common Stock Market Prices

Our common stock is listed on the New York Stock Exchange, or the NYSE, under the symbol "DCT". The following table presents the high and low sales prices during periods presented:

Quarter Ended in 2017	High	Low
December 31,	$61.53	$57.02
September 30,	$60.02	$52.06
June 30,	$55.69	$47.85
March 31,	$48.83	$43.95

Quarter Ended in 2016	High	Low
December 31,	$48.45	$42.96
September 30,	$50.57	$46.18
June 30,	$48.05	$39.07
March 31,	$40.55	$32.88

On February 9, 2018, the closing price of our common stock was $54.38 per share, as reported on the NYSE and there were 93,852,805 shares of common stock outstanding, held by approximately 1,450 stockholders of record. The number of holders does not include individuals or entities who beneficially own shares but whose shares are held of record by a broker or clearing agency, but does include each such broker or clearing agency as one record holder.

Distribution Policy

We intend to continue to elect and qualify to be taxed as a REIT for U.S. federal income tax purposes. U.S. federal income tax law requires that a REIT distribute with respect to each year at least 90% of its annual REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gain. We will not be required to make distributions with respect to income derived from the activities conducted through our taxable REIT subsidiaries that is not distributed to us. To the extent our taxable REIT subsidiaries' income is not distributed and is instead reinvested in the operations of these entities, the value of our equity interest in our taxable REIT subsidiaries will increase. The aggregate value of the securities that we hold in our taxable REIT subsidiaries may not exceed 25% (20% for tax years beginning after December 31, 2017, in accordance with the PATH Act discussed below) of the total value of our gross assets. Distributions from our taxable REIT subsidiaries to us will qualify for the 95% gross income test but will not qualify for the 75% gross income test.

To satisfy the requirements to qualify as a REIT and generally not be subject to U.S. federal income and excise tax, we intend to make regular quarterly distributions of our taxable net income to holders of our common stock out of legally available assets. Any future distributions we make will be at the discretion of our board of directors and will depend upon our earnings and financial condition, maintenance of REIT qualification, applicable provisions of the Maryland General Corporate Law and such other factors as our board of directors deems relevant.

We anticipate that, for U.S. federal income tax purposes, distributions (including certain part cash, part stock distributions) generally will be taxable to our stockholders and unitholders as ordinary income, although some portion of our distributions may constitute ordinary income, capital gains or a return of capital. The tax characterization of dividends paid on our common stock and OP units for 2017, 2016, and 2015 is as follows (refer to our website for more information on the taxability of our dividends):

	2017	2016	2015
Ordinary income	98.8%	80.1%	84.3%
Return of capital	0.2 %	4.5 %	6.9 %
Capital gains	1.0 %	15.4%	8.8 %

The following table presents the distributions that have been declared by our board of directors on our common stock during the fiscal years ended December 31, 2017, and 2016:

Amount Declared During Quarter Ended in 2017:	Per Share	Date Paid
December 31,	$ 0.36	January 4, 2018
September 30,	0.31	October 18, 2017
June 30,	0.31	July 12, 2017
March 31,	0.31	April 12, 2017
Total 2017	$ 1.29	
Amount Declared During Quarter Ended in 2016:	Per Share	Date Paid
December 31,	$ 0.31	January 5, 2017
September 30,	0.29	October 19, 2016
June 30,	0.29	July 13, 2016
March 31,	0.29	April 13, 2016
Total 2016	$ 1.18	

Performance Graph

The graph below shows a comparison of cumulative total stockholder returns for DCT Industrial Trust Inc. common stock with the cumulative total return on the Standard and Poor’s 500 Index, the MSCI US REIT Index, and the FTSE NAREIT Equity Industrial Index. The MSCI US REIT Index represents performance of publicly traded REITs while the FTSE NAREIT Equity Industrial Index represents only the performance of our publicly traded industrial REIT peers. Stockholders’ returns over the indicated period are based on historical data and should not be considered indicative of future stockholder returns.

	December 31, 2012	December 31, 2013	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017
DCT Industrial Trust Inc.	$ 100.00	$ 114.21	$ 147.84	$ 160.13	$ 210.64	$ 264.82
S&P 500	$ 100.00	$ 132.39	$ 150.51	$ 152.59	$ 170.84	$ 208.14
MSCI US REIT Index	$ 100.00	$ 102.47	$ 133.60	$ 136.97	$ 148.75	$ 156.29
FTSE NAREIT Equity Industrial Index	$ 100.00	$ 102.47	$ 133.35	$ 137.61	$ 149.33	$ 157.14

Note: The graph covers the period from December 31, 2012, to December 31, 2017, and assumes that $100 was invested in DCT Industrial Trust Inc. common stock and in each index on December 31, 2012, and that all dividends were reinvested.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares of Common Stock Purchased		(b) Average Price Paid per Common Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(c) Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased
October 1, 2017 - October 31, 2017	0		—	N/A	N/A
November 1, 2017 - November 30, 2017	409	(1)	$ 59.21	N/A	N/A
December 1, 2017 - December 31, 2017	0		—	N/A	N/A
Total	409		$ 59.21	N/A	N/A

(1) Represents the common stock surrendered by employees to DCT to satisfy such employees' tax withholding obligations in connection with the vesting of restricted stock.

Operating Partnership

OP Unit Market Prices and Dividends

There is no established public market for our OP Units. On February 9, 2018, there were 3,350,530 OP Units outstanding, held by approximately 190 holders of record.

The following table presents the distributions that have been declared by our board of directors on OP Units outstanding during the fiscal years ended December 31, 2017, and 2016:

Amount Declared During Quarter Ended in 2017:	Per Unit	Date Paid
December 31,	$0.36	January 4, 2018
September 30,	0.31	October 18, 2017
June 30,	0.31	July 12, 2017
March 31,	0.31	April 12, 2017
Total 2017	$1.29	
Amount Declared During Quarter Ended in 2016:	Per Unit	Date Paid
December 31,	$0.31	January 5, 2017
September 30,	0.29	October 19, 2016
June 30,	0.29	July 13, 2016
March 31,	0.29	April 13, 2016
Total 2016	$1.18	

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 and year ended December 31, 2017, approximately 0.1 million and 0.3 million OP Units were redeemed for approximately $0.1 million and $2.7 million in cash and approximately 0.1 million and 0.3 million shares of DCT common stock, respectively. The OP Unit redemptions exclude LTIP Unit redemptions, see ''Notes to the Consolidated Financial Statements, Note 11 – Equity Based Compensation'' for further details.

Supplemental Tax Disclosures – Updates to REIT Rules

The Foreign Account Tax Compliance Act, or FATCA, imposes a U.S. federal withholding tax on certain types of payments made to ''foreign financial institutions'' and certain other non-U.S. entities unless certain due diligence, reporting, withholding, and certification obligation requirements are satisfied. FATCA generally imposes a U.S. federal withholding tax at a rate of 30% on dividends on, and gross proceeds from the sale or other disposition of, its stock if paid to a foreign entity unless either (i) the foreign entity is a ''foreign financial institution'' that undertakes certain due diligence, reporting, withholding, and certification obligations, or in the case of a foreign financial institution that is a resident in a jurisdiction that has entered into an intergovernmental agreement to implement FATCA, the entity complies with the diligence and reporting requirements of such agreement, (ii) the foreign entity is not a ''foreign financial institution'' and identifies certain of its U.S. investors, or (iii) the foreign entity otherwise is excepted under FATCA. If we determine withholding is appropriate in respect of our common stock, we may withhold tax at the applicable statutory rate, and we will not pay any additional amounts in respect of such withholding. However, under delayed effective dates provided for in the Treasury Regulations and other IRS guidance, such required withholding will not begin until January 1, 2019 with respect to gross proceeds from a sale or other disposition of our common stock.

If withholding is required under FATCA on a payment related to our common stock, holders of our common stock that otherwise would not be subject to withholding (or that otherwise would be entitled to a reduced rate of withholding) generally will be required to seek a refund or credit from the IRS to obtain the benefit of such exemption or reduction (provided that such benefit is available). Prospective investors should consult their own tax advisors regarding the effect of FATCA on an investment in our common stock, as well as the status of any related federal regulations and any other legislative proposals that may pertain to the ownership and disposition of our common stock.

New Partnership Audit Rules. Under the Code, a partnership that is not treated as a corporation under the publicly traded partnership rules generally is not subject to U.S. federal income tax; instead, each partner is allocated its distributive share of the partnership's items of income, gain, loss, deduction and credit and is required to take such items into account in determining the partner's income. However, a law change enacted under the Bipartisan Budget Act of 2015, effective for taxable years beginning after December 31, 2017, requires the partnership to pay the hypothetical increase in partner-level taxes (including interest and penalties) resulting from an adjustment of partnership tax items on audit or in other tax proceedings, unless the partnership elects an alternative method under which the taxes resulting from the adjustment (and interest and penalties) are assessed at the partner level. Many uncertainties remain as to the application of these rules, including the application of the alternative method to partners that are REITs, and the impact they will have on us. However, it is possible, that partnerships in which we invest, including our operating partnership, may be subject to U.S. federal income tax, interest and penalties in the event of a U.S. federal income tax audit as a result of these law changes.

The "Protecting Americans from Tax Hikes Act of 2015" (the "PATH Act") was enacted on December 18, 2015 and contains several provisions pertaining to REIT qualification and taxation, which are briefly summarized below:

- For taxable years beginning before January 1, 2018, no more than 25% of the value of our assets may consist of stock or securities of one or more TRSs. For taxable years beginning after December 31, 2017, the Act reduces this limit to 20%.
- For purposes of the REIT asset tests for taxable years beginning after December 31, 2015, the PATH Act provides that debt instruments issued by publicly offered REITs will constitute "real estate assets." However, unless such a debt instrument is secured by a mortgage or otherwise would have qualified as a real estate asset under prior law, (i) interest income and gain from such a debt instrument is not qualifying income for purposes of the 75% gross income test and (ii) all such debt instruments may represent no more than 25% of the value of our total assets.
- For taxable years beginning after December 31, 2015, certain obligations secured by a mortgage on both real property and personal property will be treated as a qualifying real estate asset and give rise to qualifying income for purposes of the 75% gross income test if the fair market value of such personal property does not exceed 15% of the total fair market value of all such property.
- A 100% excise tax is imposed on "redetermined TRS service income," which is income of a TRS attributable to services provided to, or on behalf of its associated REIT and which would otherwise be increased on distribution, apportionment, or allocation under Section 482 of the Code.
- For distributions made in taxable years beginning after December 31, 2014, the preferential dividend rules no longer to apply to us.
- Additional exceptions to the rules under the Foreign Investment in Real Property Act ("FIRPTA") were introduced for non-U.S. persons that constitute "qualified shareholders" (within the meaning of Section 897(k)(3) of the Code) or "qualified foreign pension funds" (within the meaning of Section 897(l)(2) of the Code).
- After February 16, 2016, the FIRPTA withholding rate under Section 1445 of the Code for dispositions of U.S. real property interests is increased from 10% to 15%.
- The PATH Act increases from 5% to 10% the maximum stock ownership of the REIT that a non-U.S. shareholder may have held to avail itself of the FIRPTA exception for shares regularly traded on an established securities market.
- For assets we acquired from a C corporation in a carry-over basis transaction, the Path Act, in conjunction with recently promulgated Treasury Regulations, reduces the recognition period during which we could be subject to corporate tax on any built-in gains recognized on the sale of such assets from 10 years to 5 years.

SUPPLEMENT TO FEDERAL INCOME TAX CONSIDERATIONS

This summary is for general information purposes only and is not tax advice. This discussion does not address all aspects of taxation that may be relevant to particular holders of our securities in light of their personal investment or tax circumstances.

Recent Legislation

The recently enacted "Tax Cuts and Jobs Act" (the "TCJA"), generally applicable for tax years beginning after December 31, 2017, made significant changes to the Code, including a number of provisions of the Code that affect the taxation of businesses and their owners, including REITs and their stockholders, and, in certain cases, that modify the tax rules discussed in the accompanying prospectus.

Among other changes, the TCJA made the following changes:

- For tax years beginning after December 31, 2017 and before January 1, 2026, (i) the U.S. federal income tax rates on ordinary income of individuals, trusts and estates have been generally reduced and (ii) non-corporate taxpayers are permitted to take a deduction for certain pass-through business income, including dividends received from REITs that are not designated as capital gain dividends or qualified dividend income, subject to certain limitations.
- The maximum U.S. federal income tax rate for corporations has been reduced from 35% to 21%, and the alternative minimum tax has been eliminated for corporations, which would generally reduce the amount of U.S. federal income tax payable by our TRSs and by us to the extent we were subject to corporate U.S. federal income tax (for example, if we distributed less than 100% of our taxable income or recognized built-in gains in assets acquired from C corporations). In addition, the maximum withholding rate on distributions by us to non-U.S. stockholders that are treated as attributable to gain from the sale or exchange of a U.S. real property interest is reduced from 35% to 21%.
- Certain new limitations on the deductibility of interest expense now apply, which limitations may affect the deductibility of interest paid or accrued by us or our TRSs.
- Certain new limitations on net operating losses now apply, which limitations may affect net operating losses generated by us or our TRSs.
- A U.S. tax-exempt stockholder that is subject to tax on its unrelated business taxable income ("UBTI") will be required to separately compute its taxable income and loss for each unrelated trade or business activity for purposes of determining its UBTI.
- New accounting rules generally require us to recognize income items for federal income tax purposes no later than when we take the item into account for financial statement purposes, which may accelerate our recognition of certain income items.

This summary does not purport to be a detailed discussion of the changes to U.S. federal income tax laws as a result of the enactment of the TCJA. Technical corrections or other amendments to the TCJA or administrative guidance interpreting the TCJA may be forthcoming at any time. We cannot predict the long-term effect of the TCJA or any future law changes on REITs or their stockholders. Investors are urged to consult their own tax advisors regarding the effect of the TCJA based on their particular circumstances.

ITEM 6. SELECTED FINANCIAL DATA

The following tables present selected consolidated financial and other information of DCT and the Operating Partnership as of and for the years ended December 31, 2017, 2016, 2015, 2014, and 2013. The financial data in the table should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our Consolidated Financial Statements and related notes in “Item 8. Financial Statements and Supplementary Data.”

DCT

	For the Years Ended December 31,				
	2017	2016	2015	2014	2013
Operating Data:					
Rental revenues	$423,026	$391,360	$353,091	$334,787	$286,218
Total revenues	$424,468	$392,776	$354,697	$336,526	$289,005
Rental expenses and real estate taxes	$103,000	$96,817	$92,214	$94,310	$80,025
Property NOI[(1)]	$320,026	$294,543	$260,877	$240,477	$206,193
Total operating expenses	$300,248	$284,678	$284,672	$277,688	$237,741
Income (loss) from continuing operations	$108,476	$98,036	$102,965	$46,531	$(9,251)
Income from discontinued operations	$—	$—	$—	$5,717	$26,723
Gain on dispositions of real estate interests	$47,126	$49,895	$77,871	$39,671	$—
Net income attributable to common stockholders	$103,494	$93,060	$94,048		