DCT Industrial Trust Inc.
Form 10-Q
May 03, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2013

OR

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from _________ to _________

Commission File Number 001-33201

DCT INDUSTRIAL TRUST INC.

(Exact name of registrant as specified in its charter)

Maryland	**82-0538520**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
518 Seventeenth Street, Suite 800 Denver, Colorado	**80202**
(Address of principal executive offices)	**(Zip Code)**

(303) 597-2400

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

As of April 26, 2013, 291,356,503 shares of common stock of DCT Industrial Trust Inc., par value $0.01 per share, were outstanding.

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DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

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DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except share information)

	March 31, 2013 (unaudited)	December 31, 2012
ASSETS		
Land	$ 795,083	$ 780,235
Buildings and improvements	2,519,914	2,481,206
Intangible lease assets	79,539	78,467
Construction in progress	42,716	45,619
Total investment in properties	3,437,252	3,385,527
Less accumulated depreciation and amortization	(631,986)	(605,888)
Net investment in properties	2,805,266	2,779,639
Investments in and advances to unconsolidated joint ventures	129,415	130,974
Net investment in real estate	2,934,681	2,910,613
Cash and cash equivalents	19,498	12,696
Restricted cash	5,085	10,076
Deferred loan costs, net	9,313	6,838
Straight-line rent and other receivables, net of allowance for doubtful accounts of $1,395 and $1,251, respectively	51,493	51,179
Other assets, net	12,672	12,945
Assets held for sale	11,350	52,852
Total assets	$ 3,044,092	$ 3,057,199
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable and accrued expenses	$ 49,571	$ 57,501
Distributions payable	21,637	21,129
Tenant prepaids and security deposits	22,288	24,395
Other liabilities	5,322	7,213
Intangible lease liability, net	19,795	20,148
Line of credit	50,000	110,000
Senior unsecured notes	1,075,000	1,025,000
Mortgage notes	317,704	317,314
Liabilities related to assets held for sale	400	940
Total liabilities	1,561,717	1,583,640
Equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, none outstanding		
Shares-in-trust, $0.01 par value, 100,000,000 shares authorized, none outstanding		
Common stock, $0.01 par value, 500,000,000 shares authorized 284,695,132 and 280,310,488 shares issued and outstanding as of March 31, 2013 and December 31, 2012, respectively	2,847	2,803
Additional paid-in capital	2,262,631	2,232,682
Distributions in excess of earnings	(890,503)	(871,655)

Accumulated other comprehensive loss	(33,766)	(34,766)
Total stockholders equity	1,341,209	1,329,064
Noncontrolling interests	141,166	144,495
Total equity	1,482,375	1,473,559
Total liabilities and equity	$ 3,044,092	$ 3,057,199

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

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DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

Consolidated Statements of Operations

(unaudited, in thousands, except per share information)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
REVENUES:		
Rental revenues	$ 72,396	$ 61,416
Institutional capital management and other fees	812	1,055
Total revenues	73,208	62,471
OPERATING EXPENSES:		
Rental expenses	8,864	7,578
Real estate taxes	11,079	9,625
Real estate related depreciation and amortization	32,615	29,602
General and administrative	6,420	5,784
Casualty gains	(59)	(83)
Total operating expenses	58,919	52,506
Operating income	14,289	9,965
OTHER INCOME AND EXPENSE:		
Development profits	268	
Equity in earnings (loss) of unconsolidated joint ventures, net	391	(854)
Interest expense	(16,860)	(16,930)
Interest and other income (expense)	162	197
Income tax benefit (expense) and other taxes	(109)	(268)
Loss from continuing operations	(1,859)	(7,890)
Income from discontinued operations	3,495	1,060
Consolidated net income (loss) of DCT Industrial Trust Inc.	1,636	(6,830)
Net (income) loss attributable to noncontrolling interests	(357)	826
Net income (loss) attributable to common stockholders	1,279	(6,004)
Distributed and undistributed earnings allocated to participating securities	(173)	(128)
Adjusted net income (loss) attributable to common stockholders	$ 1,106	$ (6,132)
EARNINGS PER COMMON SHARE BASIC AND DILUTED:		
Loss from continuing operations	$ (0.01)	$ (0.03)
Income from discontinued operations	0.01	0.00
Net income (loss) attributable to common stockholders	$ 0.00	$ (0.03)

WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic and diluted	281,063	246,367
Distributions declared per common share	$ 0.07	$ 0.07

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

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DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

(unaudited, in thousands)

	Three Months Ended March 31, 2013	2012
Consolidated net income (loss) of DCT Industrial Trust Inc.	$ 1,636	$ (6,830)
Other Comprehensive Income:		
Net unrealized gain on cash flow hedging derivatives	6	1,565
Realized income related to hedging activities	93	
Amortization of cash flow hedging derivatives	1,000	251
Other Comprehensive income	1,099	1,816
Comprehensive income (loss)	2,735	(5,014)
Comprehensive (income) loss attributable to noncontrolling interests	(456)	534
Comprehensive income (loss) attributable to common stockholders	$ 2,279	$ (4,480)

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

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DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

Consolidated Statement of Changes in Equity

(unaudited, in thousands)

	Total	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Distributions in Excess of Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests
Balance at December 31, 2012	$ 1,473,559	280,310	$ 2,803	$ 2,232,682	$ (871,655)	$ (34,766)	$ 144,495
Net income	1,636				1,279		357
Other comprehensive income	1,099					1,000	99
Issuance of common stock, net of offering costs	27,500	3,806	38	27,462			
Issuance of common stock, stock-based compensation plans	(25)	196	2	(27)			
Amortization of stock-based compensation	1,072			386			686
Distributions to common stockholders and noncontrolling interests	(21,851)				(20,127)		(1,724)
Purchases and redemptions of noncontrolling interests	(615)	383	4	2,128			(2,747)
Balance at March 31, 2013	$ 1,482,375	284,695	$ 2,847	$ 2,262,631	$ (890,503)	$ (33,766)	$ 141,166

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

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DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(unaudited, in thousands)

	Three Months Ended March 31, 2013	2012
OPERATING ACTIVITIES:		
Consolidated net income (loss) of DCT Industrial Trust Inc.	**$ 1,636**	**$ (6,830)**
Adjustments to reconcile consolidated net loss of DCT Industrial Trust Inc. to net cash provided by operating activities:		
Real estate related depreciation and amortization	32,690	32,166
Gain on dispositions of real estate interests	(2,877)	(88)
Distributions of earnings from unconsolidated joint ventures	1,563	587
Development profits	(268)	
Equity in (earnings) loss of unconsolidated joint ventures, net	111	854
Stock-based compensation	1,072	980
Casualty gains	(59)	(155)
Straight-line rent	(1,516)	(2,020)
Other	2,189	209
Changes in operating assets and liabilities:		
Other receivables and other assets	(1,298)	(662)
Accounts payable, accrued expenses and other liabilities	(9,681)	(6,213)
Net cash provided by operating activities	**23,562**	**18,828**
INVESTING ACTIVITIES:		
Real estate acquisitions	(35,010)	(8,556)
Capital expenditures and development activities	(29,949)	(17,632)
Proceeds from dispositions of real estate investments	51,180	4,722
Investments in unconsolidated joint ventures	(579)	(1,951)
Distributions of investments in unconsolidated joint ventures	640	226
Other investing activities	11	(129)
Net cash used in investing activities	**(13,707)**	**(23,320)**
FINANCING ACTIVITIES:		
Proceeds from senior unsecured revolving line of credit	56,000	61,000
Repayments of senior unsecured revolving line of credit	(116,000)	(36,000)
Proceeds from senior unsecured notes	225,000	
Repayments of senior unsecured notes	(175,000)	
Proceeds from mortgage notes	9,303	
Principal payments on mortgage notes	(8,332)	(2,295)
Payments of deferred loan costs	(3,101)	(11)
Proceeds from issuance of common stock, net	27,942	
Offering costs for issuance of common stock and OP Units	(443)	(88)
Redemption of noncontrolling interests	(606)	(882)
Dividends to common stockholders	(19,656)	(17,240)
Distributions to noncontrolling interests	(1,507)	(1,876)
Contributions from noncontrolling interests		30
Other financing activity	3,347	

Net cash (used in) provided by financing activities	**(3,053)**	**2,638**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**6,802**	**(1,854)**
CASH AND CASH EQUIVALENTS, beginning of period	**12,696**	**12,834**
CASH AND CASH EQUIVALENTS, end of period	**$ 19,498**	**$ 10,980**
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest, net of capitalized interest	$ 16,609	$ 16,380
Supplemental Disclosures of Non-Cash Activities		
Retirement of fully depreciated and amortized assets, net	$ 4,599	$ 9,138
Redemptions of OP Units settled in shares of common stock	$ 2,413	$ 7,833

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

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DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 - Organization

DCT Industrial Trust Inc. is a leading industrial real estate company specializing in the acquisition, development, leasing and management of bulk distribution and light industrial properties located in high-volume distribution markets in the United States and Mexico. As used herein, DCT Industrial Trust, DCT, the Company, we, our and us refer to DCT Industrial Trust Inc. and its consolidated subsidiaries and partners except where the context otherwise requires. We were formed as a Maryland corporation in April 2002 and have elected to be treated as a real estate investment trust (REIT) for United States (U.S.) federal income tax purposes. We are structured as an umbrella partnership REIT under which substantially all of our current and future business is, and will be, conducted through a majority owned and controlled subsidiary, DCT Industrial Operating Partnership LP (the operating partnership), a Delaware limited partnership, for which DCT Industrial Trust Inc. is the sole general partner. We own our properties through our operating partnership and its subsidiaries. As of March 31, 2013, we owned approximately 93.4% of the outstanding equity interests in our operating partnership.

As of March 31, 2013, the Company owned interests in approximately 74.5 million square feet of properties leased to approximately 880 customers, including:

- 58.8 million square feet comprising 405 consolidated properties owned in our operating portfolio which were 92.6% occupied;
- 14.2 million square feet comprising 45 unconsolidated properties which were 84.4% occupied and operated on behalf of four institutional capital management partners;
- 0.3 million square feet comprising four consolidated properties under redevelopment;
- 0.8 million square feet comprising two consolidated buildings in development; and
- 0.4 million square feet comprising one consolidated building classified as held for sale.

Note 2 - Summary of Significant Accounting Policies

Interim Financial Information

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial information. Accordingly, these statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, the accompanying unaudited Consolidated Financial Statements include all adjustments, consisting of normal recurring items, necessary for their fair presentation in conformity with GAAP. Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with our audited Consolidated Financial Statements as of December 31, 2012 and related notes thereto as filed on Form 10-K on February 21, 2013.

Basis of Presentation

The accompanying Consolidated Financial Statements include the financial position, results of operations and cash flows of the Company, its wholly-owned qualified REIT and taxable REIT subsidiaries, the operating partnership and its consolidated joint ventures, in which it has a controlling interest. Third-party equity interests in the operating partnership and consolidated joint ventures are reflected as noncontrolling interests in the Consolidated Financial Statements. We also have noncontrolling partnership interests in unconsolidated institutional capital management and other joint ventures, which are accounted for under the equity method. All significant intercompany amounts have been eliminated.

Principles of Consolidation

We hold interests in both consolidated and unconsolidated joint ventures. All joint ventures over which we have financial and operating control, and variable interest entities (VIE s) in which we have determined that we are the primary beneficiary, are included in the Consolidated Financial Statements. We use the equity method of accounting for joint ventures over which we do not have a controlling interest or where we do not exercise significant control over major operating and management decisions, but where we exercise significant influence and include our share of earnings or losses of these joint ventures in our consolidated net loss.

We analyze our joint ventures in accordance with GAAP to determine whether they are VIE s and, if so, whether we are the primary beneficiary. Our judgment with respect to our level of influence or control over an entity and whether we are the primary beneficiary of a VIE involves consideration of various factors including the form of our ownership interest, our representation on the entity s board of directors, the size of our investment (including loans) and our ability to participate in major decisions. Our ability to correctly assess our influence or control over an entity affects the presentation of these investments in the Consolidated Financial Statements and, consequently, our financial position and results of operations.

Reclassifications

Certain items in our Consolidated Financial Statements for 2012 have been reclassified to conform to the 2013 presentation. Income statement amounts for properties disposed of or classified as held for sale have been reclassified to discontinued operations for all periods presented. Income statement related disclosures in the accompanying notes exclude amounts that have been reclassified to discontinued operations.

Use of Estimates

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

Revenue Recognition

We record rental revenues on a straight-line basis under which contractual rent increases are recognized evenly over the full lease term. Certain properties have leases that provide for tenant occupancy during periods where no rent is due or where minimum rent payments change during the term of the lease. Accordingly, we record receivables from tenants that we expect to collect over the remaining lease term rather than currently, which are recorded as a straight-line rent receivable. When we acquire a property, the terms of existing leases are considered to commence as of the acquisition date for the purposes of this calculation. The total increase to Rental revenues due to straight-line rent adjustments was approximately $1.5 million and $1.9 million, for the three months ended March 31, 2013 and 2012, respectively.

Tenant recovery income includes payments and amounts due from tenants pursuant to their leases for real estate taxes, insurance and other recoverable property operating expenses and is recognized as Rental revenues during the same period the related expenses are incurred. Tenant recovery income recognized as Rental revenues was approximately $15.6 million and $12.4 million, for the three months ended March 31, 2013 and 2012, respectively.

We maintain an allowance for estimated losses that may result from the inability of our tenants to make required payments. If a tenant fails to make contractual payments beyond any allowance, we may recognize additional bad debt expense in future periods equal to the net outstanding balances. As of March 31, 2013 and December 31, 2012, our allowance for doubtful accounts was approximately $1.4 million and $1.3 million, respectively.

In connection with property acquisitions qualifying as business combinations, we may acquire leases with rental rates above or below the market rental rates. Such differences are recorded as an intangible lease asset or liability and amortized to Rental revenues over the reasonably assured term of the related leases. The unamortized balances of these assets and liabilities associated with the early termination of leases are fully amortized to their respective revenue line items in our Consolidated Statements of Operations over the shorter of the expected life of such assets and liabilities or the remaining lease term. The total net impact to Rental revenues due to the amortization of above and below market rents was an increase of approximately $0.4 million and $0.2 million for the three months ended March 31, 2013 and 2012, respectively.

Early lease termination fees are recorded in Rental revenues on a straight-line basis over the estimated remaining contractual lease term or upon collection if collectability is not assured. The total net impact to Rental revenues due to early lease termination fees was an increase of approximately $0.1 million and $0.1 million for the three months ended March 31, 2013 and 2012, respectively.

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We earn revenues from asset management fees, acquisition fees, property management fees and fees for other services pursuant to joint venture and other agreements. These are included in our Consolidated Statements of Operations in Institutional capital management and other fees. We recognize revenues from asset management fees, acquisition fees, property management fees and fees for other services when the related fees are earned and are realized or realizable.

New Accounting Standards

In the first quarter of 2013 the Financial Accounting Standards Board (the FASB) issued an accounting standard update that requires disclosure of the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount is required under GAAP to be reclassified in its entirety to net income. Additionally, the update requires disclosure of changes in each component of other comprehensive income. The disclosure requirements were retroactively effective for us on January 1, 2013. As this guidance only requires expanded disclosure, the adoption did not have a material impact on our consolidated financial statements.

Note 3 - Investment in Properties

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

	March 31, 2013	December 31, 2012
Operating properties	$ 3,262,795	$ 3,209,024
Properties under development	77,432	80,008
Properties under redevelopment	16,440	14,699
Properties in pre-development including land held	80,585	81,796
Total Investment in Properties	**3,437,252**	**3,385,527**
Less accumulated depreciation and amortization	(631,986)	(605,888)
Net Investment in Properties	**$ 2,805,266**	**$ 2,779,639**

Acquisition Activity

During the three months ended March 31, 2013, we acquired five buildings comprising 0.5 million square feet. These properties located in the Atlanta and Southern California markets were acquired for a total purchase price of approximately $35.8 million. Related to these acquisitions, we incurred acquisition costs of approximately $0.4 million during the three months ended March 31, 2013, included in General and administrative in our Consolidated Statement of Operations. During the three months ended March 31, 2012, we incurred acquisition costs of approximately $0.2 million.

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Development Activity

2013 Development Activity

During the three months ended March 31, 2013, we continued to expand our development activities. The table below represents a summary of our consolidated development activity as of March 31, 2013. As of March 31, 2013, we had two build-to-suit for sale projects under contract. During the three months ended March 31, 2013, we recognized development profits of approximately $0.3 million related to the development of the Dulles Summit Lot 10 project which is under contract to be sold to a third party for a total of $8.0 million. The 8th and Vineyard A project was under contract, but as development activities recently commenced, no profit was earned during the three months ended March 31, 2013.

Project	Market	Acres	Number of Buildings	Square Feet (in thousands)	Percent owned	Cumulative Costs at 03/31/13 (in thousands)	Projected Investment (in thousands)	Completion Date	Percentage Leased
Consolidated Development Activities:									
Stabilized in Q1 2013									
Northwest 8 Distribution Center	Houston	16	1	267	100%	$ 13,241	$ 13,238	Q3-2012(1)	100%
Dulles Summit Distribution Building E	Baltimore/ Washington	6	1	76	100%	6,515	7,123	Q3-2012(1)	100%
	Total	**22**	**2**	**343**	**100%**	**$ 19,756**	**$ 20,361**		**100%**
Development Projects in Lease Up									
DCT 55	Chicago	33	1	604	100%	$ 23,009	$ 27,917	Q4-2012(2)	0%
DCT Commerce Center at Pan American West (Building A)	Miami	7	1	168	100%	13,850	14,594	Q1-2013(2)	89%
	Total	**40**	**2**	**772**	**100%**	**$ 36,859**	**$ 42,511**		**19%**
Under Construction									
DCT Commerce Center at Pan American West (Building B)	Miami	7	1	167	100%	$ 10,482	$ 13,278	Q2-2013(2)	74%
Slover Logistics Center I	Southern California	28	1	652	100%	18,715	36,725	Q4-2013(2)	100%
DCT Airtex Industrial Center	Houston	13	1	267	100%	6,499	14,678	Q3-2013(2)	0%
Rockdale Distribution Center - Expansion	Nashville	15	expansion	225	100%	3,382	8,093	Q3-2013(2)	100%
DCT Beltway Tanner Business Park	Houston	11	1	136	100%	4,725	15,395	Q3-2013(2)	0%
	Total	**74**	**4**	**1,447**	**100%**	**$ 43,803**	**$ 88,169**		**69%**
Total Development Activities		**114**	**6**	**2,219**	**100%**	**$ 80,662**	**$ 130,680**		**52%**
Build-to-Suit for Sale									
Dulles Summit Outparcels	Baltimore/ Washington	5	1	61	50%	$ 7,247	$ 7,429	Q2-2013(2)	

8th & Vineyard A	Southern California	6	1	130	91%	1,999	8,960	Q4-2013[(2)]
		11	**2**	**191**		**$ 9,246**	**$ 16,389**	

(1) This is the projected stabilization date.
(2) The completion date represents the date of building shell completion.

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Disposition Activity

During the three months ended March 31, 2013, we sold three operating properties totaling approximately 1.8 million square feet to third-parties in the Atlanta, Louisville, and Memphis markets, for combined gross proceeds of $50.5 million. We recognized gains of approximately $2.9 million on these dispositions. All gains associated with these sales are reflected in Income (loss) from discontinued operations in the Consolidated Financial Statements.

Intangible Lease Assets and Liabilities

Aggregate amortization expense for intangible lease assets recognized in connection with property acquisitions (excluding assets and liabilities related to above and below market rents; see Note 2 - Summary of Significant Accounting Policies for additional information) was approximately $2.6 million and $2.7 million for the three months ended March 31, 2013 and 2012, respectively. Our intangible lease assets included the following as of March 31, 2013 and December 31, 2012 (in thousands).

	March 31, 2013			December 31, 2012		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Other intangible lease assets	$ 74,020	$ (28,873)	$ 45,147	$ 71,846	$ (26,181)	$ 45,665
Above market rent	$ 5,519	$ (3,285)	$ 2,234	$ 6,621	$ (4,348)	$ 2,273
Below market rent	$ (26,017)	$ 6,222	$ (19,795)	$ (27,590)	$ 7,442	$ (20,148)

Note 4 - Investments in and Advances to Unconsolidated Joint Ventures

We enter into joint ventures primarily for purposes of developing industrial real estate and to establish commingled investment vehicles with institutional partners. Our investments in these joint ventures are included in Investments in and advances to unconsolidated joint ventures in our Consolidated Balance Sheets. The following table summarizes our unconsolidated joint ventures as of March 31, 2013 and December 31, 2012 (dollars in thousands).

Unconsolidated Joint Ventures	DCT Ownership as of March 31, 2013	Number of Buildings	Unconsolidated Investment in and Advances as of March 31, 2013	Unconsolidated Investment in and Advances as of December 31, 2012
Institutional Joint Ventures:				
DCT/SPF Industrial Operating LLC	20.0%	13	$ 42,039	$ 42,571
TRT-DCT Venture I	3.6%	14	570	558
TRT-DCT Venture II	11.4%	5	1,957	1,990
TRT-DCT Venture III	10.0%	4	1,199	1,225
Total Institutional Joint Ventures		36	45,765	46,344
Other:				
Stirling Capital Investments (SCLA)(1)	50.0%	6	52,675	53,840
IDI/DCT, LLC	50.0%	3	27,635	27,736
IDI/DCT Buford, LLC (land only)	75.0%		3,340	3,054
Total Other		9	83,650	84,630
Total		45	$ 129,415	$ 130,974

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

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Guarantees

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

Note 5 - Financial Instruments and Hedging Activities

Fair Value of Financial Instruments

As of March 31, 2013 and December 31, 2012, the fair values of cash and cash equivalents, restricted cash held in escrow, accounts receivable and accounts payable approximated their carrying values because of the short-term nature of these instruments. The estimated fair values of other financial instruments subject to fair value disclosures were determined based on available market information and valuation methodologies appropriate for these purposes. Considerable judgment and a high degree of subjectivity are involved in developing these estimates. Our estimates may differ from the actual amounts that we could realize upon disposition. The following table summarizes these financial instruments as of March 31, 2013 and December 31, 2012 (in thousands).

	Balances as of March 31, 2013		**Balances as of December 31, 2012**	
	Carrying Amounts	Estimated Fair Value	Carrying Amounts	Estimated Fair Value
Borrowings[(1)]:				
Senior unsecured revolving credit facility	$ 50,000	$ 50,000	$ 110,000	$ 110,000
Fixed rate debt[(2)]	$ 992,704	$ 1,108,670	$ 1,167,314	$ 1,306,761
Variable rate debt	$ 400,000	$ 400,000	$ 175,000	$ 176,922

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

(2) The carrying amount of our fixed rate debt includes premiums and discounts as a result of the difference between the fair value and face value of debt assumed in connection with our acquisition activities.

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The following table displays a reconciliation of liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2013 and 2012. During the same periods, we had no assets measured at fair value on a recurring basis. The table also displays gains and losses due to changes in fair value, including both realized and unrealized, recognized in the Consolidated Statements of Operations for Level 3 liabilities. When assets and liabilities are transferred between levels, we recognize the transfer at the beginning of the period (in thousands).

	During the Three Months Ended March 31, 2013	During the Three Months Ended March 31, 2012
Level 3 Liabilities:		
Interest Rate Swaps:		
Beginning balance at January 1	$	$ (26,746)
Net unrealized gains included in accumulated other comprehensive loss		1,565
Ending balance at March 31	$	$ (25,181)

Hedging Activities

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

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

For derivatives designated as cash flow hedges, the effective portion of the changes in the fair value of the derivative is initially reported in Accumulated other comprehensive loss in our Consolidated Statement of Changes in Comprehensive Income (i.e., not included in earnings) and subsequently reclassified into earnings when the hedged transaction affects earnings or the hedging relationship is no longer effective at which time the ineffective portion of the derivative s changes in fair value is recognized directly into earnings. We assess the effectiveness of each hedging relationship whenever financial statements are issued or earnings are reported and at least every three months. We do not use derivatives for trading or speculative purposes.

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The following table presents the effect of our derivative financial instruments on our accompanying financial statements for the three months ended March 31, 2013 and 2012 (amounts in thousands).

	For the Three Months Ended March 31, 2013		For the Three Months Ended March 31, 2012	
Derivatives Designated as Hedging Instruments				
Derivative type		Interest rate contracts		Interest rate contracts
Amount of gain recognized in Other Comprehensive Income (OCI) (effective portion)	$	99	$	1,565
Location of gain or (loss) reclassified from accumulated OCI into income (effective portion)		Interest expense and Equity in (earnings) loss of unconsolidated joint venture		Interest expense
Amount of loss reclassified from accumulated OCI into income (effective portion)	$	(1,000)	$	(251)
Location of gain or (loss) recognized in income (ineffective portion and amount excluded from effectiveness testing)		Interest expense		Interest expense
Amount of loss recognized in income due to missed forecast (ineffective portion and amount excluded from effectiveness testing)	$		$	

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