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Moderator: Melissa Marsden
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Operator: Good morning everyone. My name is Matt and I'll be your conference facilitator today. I'd like to welcome everyone to the ProLogis year-end 2008 financial results conference call. Today's call is being recorded.

All lines are currently in a listen-only mode to prevent any background noise. After the speaker's presentation, there will be a question-and-answer session. If you wish to ask a question during the session, simply press star 1 on your telephone keypad. Your questions will be taken in the order in which they are received.

At this time, I'd like to turn the conference over to Ms. Melissa Marsden, Managing Director of Investor Relations and Corporate Communications with ProLogis. Ms. Marsden, please go ahead.

Melissa Marsden: Thank you, Matt. Good morning everyone and welcome to our fourth quarter year-end 2008 conference call.

By now, you should all have received an e-mail with a link to our new supplemental and our guidance for 2009, but if not, those documents are available on our website at ProLogis.com under investor relations.

This morning, we'll first hear from Walt Rakowich, CEO, to comment on progress relative to our current initiatives and the overall environment. And then Bill Sullivan, CFO, will cover our results, guidance and recent investment activity. Additionally, we are joined today by Ted Antenucci, Chief Investment Officer, and Chuck Sullivan, Head of Global Operations.

Before we begin the prepared remarks, I'd like to say that this conference call will contain forward-looking statements under federal securities laws. These statements are based on current expectations, estimates and projections about the market and the industry in which ProLogis operates, as well as management's beliefs and assumptions.

Forward-looking statements are not guarantees of performance, and actual operating results may be affected by a variety of factors. For a list of those factors, please refer to the forward-looking statement notice, and the risk factors in our September 30 10-Q and our 10-K.

I'd also like to add that our fourth quarter results press release and supplemental do contain financial measures, such as FFO and EBITDA, that are non-GAAP measures, and in accordance with Reg. G, we have provided a reconciliation to those measures.

And as we've done in the past to give a broader range of investors and analysts an opportunity to ask their questions, we will ask you to please limit your questions to one at a time.

Walt, would you please begin?

Walt Rakowich: Thank you, Melissa. Good morning everyone.

A great deal has happened since our third quarter results conference call. Many of you attended our meeting in New York last November, where we outlined our plan for de-leveraging and de-risking our balance sheet, while preserving liquidity. We'll touch on those initiatives, and progress into 2009, and intend to leave a substantial amount of time for Q&A. Bill will have more on our capital position impairments, and 2009 guidance in a moment.

Now since our November meeting, we have taken action on a number of fronts. As you know we halted virtually all new development starts moving forward. We also stopped all early stage development, which resulted in a reduction in future funding obligations of $444 million. We cut our dividend to an amount which more closely mirrored our estimated taxable income, saving $290 million per year, and we began to right-size the company by reducing our gross G&A expense by roughly $100 million, or 24%.

Before the quarter ended, we accomplished some additional initiatives, advancing our agenda further. We retired $310 million in bonds that matured in 2010. We reached a solution which allowed for PEPR to generate cash and alleviate its future funding obligations through the sale of its PEPF II units. We entered into an agreement to sell our operations in China and our interest in our Japan funds to GIC for $1.3 billion, which also saved us $239 million of future development funding obligations. And we contributed roughly $1.3 billion of properties in the various funds throughout the world, generating a 14.5% pre-deferral and 106% post deferral margin.

I hope you understand how focused we are. We understand we have more work to do this year, but make no mistake about it, the difficult environment has our attention.

Now let me address the sale of our operations in China and our funded interest in Japan. This was not an easy decision. However, it was the right decision given the challenges of the current capital environment. We'll miss our team in China and our departing colleagues in Japan. They have done a terrific job for the company throughout their years of service, and we appreciate their dedication.

You'll note that the transaction is closed, however the funding comes in two installments. This is due to the fact that an audit through December 31, 2008 has not yet been completed. We and GIC believe this is a ministerial process that will be complete as soon as possible, but no later than early second quarter. Accordingly, in order to close the deal, GIC made a substantial down payment of $500 million, with the balance due on the completion of the audits. In Q4, we took $198 million charge for the impairment associated with the China sale, and we plan to book a gain of about $140 million on the sale of the Japan fund interest in 2009, as that is when the transaction closed.

We also closed our offices in India and the GCC and postponed early stage efforts in Brazil. We will evaluate re-entry into these markets at some point in the future, but for now, we're intent on strengthening our core business where we have a significant presence while mitigating risk and reducing costs.

Moving into 2009, we'll be working on a number of new initiatives. As you know, we've set a goal to de-lever our balance sheet by $2 billion by year end. We intend to accomplish this in a number of different ways, some of which we can be more specific about than others right now.

In addition to the receipt of all payments from GIC, which will generate cash of $1.3 billion, we intend to generate an additional $1.3 billion to $1.5 billion in proceeds through contributions into funds or newly formed joint ventures and outright sales of assets into the market.

First let me address contributions. Currently, we have US$1.9 billion of third-party equity capacity in our funds, which we plan to use in different ways. We will use the remaining equity capacity of about $150 million in our Japan fund to sell an asset to GIC this year. We will continue to contribute assets into our Mexico fund, which has third-party equity capacity of $250 million. And in North America and Europe, we've made some changes to our open end fund investor agreements. In North America, we reached an agreement on a 1-year extension on the remaining outside equity commitments of $260 million through Q1 of 2010 in return for the elimination of the must put, must take arrangement. Our partners have expressed a desire to preserve equity in order to pay down debt, if need be, and/or take advantage of opportunistic acquisitions should they arise. The extension also allows for a postponement of any redemption requests until March of 2010.

As for our European open-end fund, which has third-party equity capacity of approximately 850 million euro, or US$1.1 billion, we will continue to contribute properties throughout 2009. However, we've agreed to a valuation adjustment to the independently valued cap rate on 2009 contributions. This was due to the belief that appraisals were lagging true market conditions. The incremental margin ratchets down from 75 basis points in Q1, to 25 basis points in Q4, and the agreement provides for a catch up adjustment at year end 2010 should actual values at that time prove higher than our contributed values.

In all cases, we have worked closely with our fund partners to achieve outcomes that meet their objectives and still provide us with adequate liquidity to monetize assets this year. However, given the current debt markets, we're planning to make contributions in 2009 on an all-equity basis. As such, the value of our development pipeline exceeds the equity available to take all future contributions. Therefore our strategy is to hold much of the remaining development assets on our balance sheet as income producing assets. No different than our income producing assets that we've held for years.

It's out of this total pool of assets that we intend to satisfy our additional liquidity initiatives in addition to contributions. We're in discussions with third parties in a number of fronts – from potential joint ventures to outright sales. Our goal is to run a parallel course on several options, only some of which we expect to happen. As many of you have heard, we've been marketing various portfolios of assets in the US and have received a significant amount of interest on various subsets of those assets. We'll have more on this as transactions evolve further.

With respect to our efforts to de-risk our balance sheet, we're making significant progress as well. Between the Asia sale, Q4 contributions, reversal of our previously reported new development starts and a focus on our core business, we've significantly reduced our development pipeline from roughly $8 billion at September 30, to $5.1 billion at year end.

Finally, let me briefly touch on market conditions. Yesterday, we put out our earnings guidance for the year with our best guess of operating metrics. Quite frankly, this year is tough to predict. Demand has slowed in all of our global markets. Companies just aren't moving much, and we expect that some will even contract. On the positive side, renewals will likely be above average, reducing down time and turnover costs, and new supply will be virtually shut down. On the negative side, we expect occupancies will fall, effective rents will be soft, and lease terms will be shorter. How much will depend on how long and deep this economic downturn is. Frankly, I feel good about the overall credit quality and diversification of our customers. This should help mitigate our risk, however, make no mistake about it, we're bracing for it to be a tougher year on the operating front.

And now let me turn it over to Bill.

Bill Sullivan: Thanks, Walt.

I want to focus my comments this morning on five areas. 1) Our 2008 results with a principal emphasis on the non-cash impairments taken in Q4. 2) The formatting and informational changes in our supplemental. 3) Our guidance for 2009. 4) Our balance sheet and liquidity position. 5) Our decision to pay our Q1 dividend in cash.

FFO for 2008, excluding significant non-cash adjustments, was $3.68 per share, near the top end of our range of $3.60 to $3.70 we provided on our Q3 call and in subsequent investor meetings.

This target was met principally due to our fund contribution activity in Q4, which generated nearly $1.3 billion of gross proceeds and approximately $1 billion of liquidity after our co-investment in the funds.

However, also in Q4, we incurred net, non-cash impairment charges of $811 million, reflective of the very difficult economic environment, as well as the sale of our China operations to GIC. The specifics of these are as follows: approximately $320 million associated with the write-down of various asset positions and goodwill in Europe, virtually all of which was associated with our Parkridge acquisition; $198 million in our China operations as a result of the then pending, since closed, sale of these operations to GIC; nearly $275 million on direct owned real estate, of which $197 million was associated with our land bank principally in the UK and $78 million was related to development properties and pursuit costs; and $108 million associated with an impairment recorded by our PEPR European fund upon the disposition of its investment in PEPF II. These charges were partially offset by a gain of approximately $91 million associated with our successful December tender for the 2010 bonds where we retired $310 million of debt at a total cost of $219 million.

Turning to the changes we have made in our supplemental reporting, obviously we have made major modifications. To quote an old friend of mine following his involvement in the rollout of new Coke, “everyone loves change, unless it impacts them.” I realize these changes affect all of you, and so I apologize for that. But candidly, I believe the revised supplemental enhances our overall disclosures and, over time, will simplify the presentation and understanding of our company.

Clearly the biggest change in our reporting format is the elimination of our former CDFS business segment. As we have stated since our investor meeting on November 13, our operating philosophy is changing. Our intent is to own and operate a geographically diversified portfolio of income producing assets on our balance sheet and grow our investment management business over time through acquisition activity, as well as potentially undertaking future development activity inside the funds. As a result, we have classified our existing development assets as a part of our overall portfolio of long-term hold assets. Make no mistake; we intend to create additional near-term liquidity from both the development assets and our former long-term hold assets, but we are agnostic as to whether that liquidity comes from contributions into the funds or third party asset sales.

Upon the ultimate completion and lease up of our development portfolio, those assets that are not sold or contributed in the funds will become part of our long-term hold assets. However, in order to retain transparency, we have broken out the development assets separately, and we'll do so throughout 2009 and into 2010, if need be, to show just how we are doing relative to completions and lease up.

Disclosures on metrics, such as square footage, investment amounts, leasing percentages, same store analyses and others, remain, and we believe have been enhanced. Additionally, particularly in light of the current environment, we have expanded our disclosures relative to both balance sheet and fund-related debt. We are very open to comments, questions and criticisms of the revised format. It is different, but we believe better.

Next, let me cover our 2009 guidance. We are guiding to an FFO range of between $1.85 and $2.05 per share. The major drivers associated with this guidance are average occupancy of 90% to 91%, down 150 to 200 basis points in the core industrial properties. Year-end 2009 leasing in the direct-owned development portfolio of 60% to 70%. Remaining spend of $885 million in the development pipeline, of which approximately $800 million is expected to be incurred in 2009. Targeted property contributions and dispositions of $1.3 to $1.5 billion. FFO gains of $220 million, principally from our disposition of the Japan fund interest and our disposition of one additional asset in Japan to those funds. And lastly, $320 to $340 million of FFO from fees and our share of returns from the investment management business.

There are five important points to take into consideration relative to this guidance and our ongoing FFO run rate. First, we do not expect to generate anywhere near the amount of development gains that we have in the past. Our development for contribution business model has changed and is unlikely to return anytime soon.

Second, while the $140 million, or $0.52 per share, FFO gain from the Japan fund sale is not a reoccurring event, we believe the other $80 million of FFO gains can be achieved on an annual basis. Therefore, and I am sure many of you have already done the math, taking our 2009 FFO range and backing out the FFO gain from the Japan fund sale results in a core FFO run rate of approximately $1.35 to $1.55 per share.

Third, imbedded in the costs for 2009 is approximately $73 million of non-cash interest expense associated with the implementation of APB 14, related to the interest expense on our convertible bonds. Of that amount, we expect to capitalize approximately $11 million in 2009, and the remaining $62 million will be a drag on earnings, thereby reducing FFO by 23 cents per share relative to 2008 U.S. GAAP accounting.

Fourth, relative to future growth potential, our challenge and our opportunity is that at 12/31/08 we have approximately $5.5 billion of non-income producing assets on our balance sheet, comprised of $2.5 billion of land and the 60% of un-leased space in our $5 billion development pipeline. Clearly from an operating perspective, our focus will be intent on leasing our pipeline, monetizing our land bank, and completing the right sizing of the company. All of which over time and upon full implementation should add an additional $1.50 to $1.75 per share to our annual FFO.

Finally, while we believe the ability to generate FFO and earnings is incredibly important, it is not our primary focus in 2009. In this environment, right sizing the company, generating liquidity, attacking debt maturities and simplifying the enterprise from both an operating and a transparency perspective will be at the top of our near-term agenda. Accomplishing what we want to accomplish may result in some substantial one-time costs, none of which are imbedded in our current guidance. If incurred, we'll update our guidance for 2009 accordingly.

Let me turn to our balance sheet and liquidity as of 2008 year end. At 12/31/08, we were in compliance with all our debt covenants and intend to keep it that way. We had access to nearly $1.25 billion of liquidity between cash on hand and availability under our global line of credit. We will increase this liquidity by $1.3 billion as a result of the sale of China and the Japan funds. Additionally, we are targeting asset sales and/or contributions of $1.3 to $1.5 billion in 2009. The total liquidity generation of nearly $2.7 billion will likely be offset by combined development completion expenditures and co-investment of $900 million to $1 billion this year, putting us substantially on track to reduce our balance sheet debt by our targeted $2 billion by year end. Relative to our balance sheet debt at 12/31/08, we had $11 billion outstanding, of which $339 million matures in 2009. We expect to pay this off through a combination of cash on hand, secured debt financing or availability under our bank facilities.

Relative to our fund related debt, excluding the Japan fund debt, we have $1.4 billion maturing this year, 99% of which falls into one of four buckets. Bucket 1 is $491 million in PEPR, for which it has sufficient capacity to refinance this debt through a combination of cash on hand, asset sales and the existing PEPR Bank facility. Additionally, we are currently in discussions with various German banks relative to raising incremental capital. Bucket 2 is $314 million in the California fund, wherein we have term sheets from existing lenders to extend 100% of the 2009 maturities for between 1 and 5 years. Additionally, we have rate locked on a new $100 million plus, 10-year financing to pay off a portion of these maturities. Bucket 3 is $454 million in NAIF II of which the Citi bridge loan represents 90%. We have had good discussions with Citi relative to both their equity interest and bridge loan, but there is still wood to chop on this one. Finally, $167 million inside NAIF III, the Lehman State Street loan. We believe we have reached agreement among the parties to pay down a portion of this loan and extend the maturity for a 3-year period. However, I will not count this one as done until all the documentation is executed. We are also clearly focused on 2010 maturities, both on our balance sheet and inside the funds, all of which will move up on the radar screen as we get into Q2 this year.

Finally, let me address the dividend. Our board declared a $0.25 per share dividend for Q1 2009, which we will pay in cash. Whether to pay in cash or pay in a combination of cash and stock is clearly one of the hottest topics in REIT land today. There is no right or wrong answer here. However, we have generated good liquidity in the last few months and believe our investors came in with an expectation of a cash dividend. Our clear desire is to pay our regular dividends in cash. However, given the current turmoil in the credit markets and the overall economy, we will review our position on this issue on a quarterly basis in 2009.

With that, let me turn it back to Walt to wrap up.

Walt Rakowich: Operator, I think we're ready to take questions, please.

Operator: Thank you. For our phone audience, if you do have a question or comment at this time, you may signal by pressing star 1 on your touch-tone telephone. Once again, that is star followed by the digit 1 on your touch-tone telephone at this time. We do ask those participants who are using speakerphones to please make sure that your mute function is turned off so that your signal can reach our equipment. Once again, that is star 1 if you have a question or comment at this time.

Our first question today will come from Michael Bilerman with Citi.

Michael Bilerman: Good morning. Bill, it was very helpful to go through the 2009 debt. I know from 2010 you said it's going to come up on the radar screen. Maybe you can just provide a little bit of comfort. Obviously 2010 with the global line and within the funds, you're totaling almost $7 billion of stuff to deal with. Obviously that is a much bigger amount than what's happening in 2009. Can you just share a little bit about how you're thinking about those plans, and what capacity may be there to refinance?

Bill Sullivan: Certainly, Michael. Let me talk about both. On the global line of credit, as we talked about in the past, we had a bank meeting in December, at which point we sat down with all of our banks and talked about our desires and goals. We didn't ask the banks for anything at that point, but we said we'd be back to them in early to mid-Q1 to discuss a redo and an extension of the global line of credit. That is very high on our radar screen. We have been in conversations with the lead banks on that discussing terms and conditions, et cetera, et cetera. And we intend to attack that vigorously in the coming weeks, and hopefully get a resolution to an extension on that facility well past 2010, somewhere in Q2. And so that is high on our radar screen today, and we're active in those discussions.

On the fund side, we have probably seven to eight different packages out to various long-term lenders. At this point, probably half of those – more than half of those – relate to 2010 maturities both in Europe and the U.S. So we are active in those, but at this point in time given all the things that we've been working on and driving towards, and we just closed China and Japan, so now we can turn our attention in the finance area and focus intently on the 2009 and 2010 maturities. Again our primary goal early in the year first and foremost was to fix the 2009s, and we think we've gone a long way in that regard. And we've got a variety of discussions going on the 2010s.

Walt Rakowich: And Michael, this is Walt, let me just add to that. I mean we have to be really careful when we're talking about refinancing $7 billion. You know $4.4 billion of that is the line of credit. We don't have anything near that outstanding right now. I mean we have $3.2 billion, but that's exclusive of $1.3 billion China sale and that's exclusive of $1.2 to $1.5 billion of pay down, much of which will come from contributions to our funds, and we'll talk about the leasing and the like on the call. So as you know, we're not talking about refinancing $4.4 billion. I think at the end of the day, the things that we've already disclosed in the market will take that number down substantially. And so we wouldn't be refinancing $4.4 billion, we'd probably be refinancing a much lower number.

Bill Sullivan: And that's part and parcel of the extension and redo of that facility.

Walt Rakowich: Yes, I don't think anybody believes today that we need $4.4 billion out on our line of credits to run the company.

Operator: Our next question will come from Mark Biffert with Oppenheimer.

Mark Biffert: Good morning, guys. I was wondering Walt if you could talk about the leasing environment. Looking at what your tenants are saying, as well as when you look at your CDFS pipeline, or the assets that you plan to contribute in '09, how that leasing is going? Also, how do you decipher between which assets you plan on keeping on balance sheet versus contribution?

Walt Rakowich: Right, I'm going to give a general comment, and then I'm going to turn it over to Ted to talk about the development pipeline, which I think is probably the most pressing question.

First of all, it’s kind of interesting, Mark. If you just took 12/31 as a snapshot, and we were doing this you know normally 30 days afterward, I'd say boy you know surprisingly the overall market is not that bad. But frankly, you'd be crazy to put your head in the sand and not look out to what (A), we're beginning to see a little bit in January, and (B), what we think we're going to see based on reading the papers. I mean, we believe that occupancies will decline this year, and we believe that rents will likely decline a little bit, because again, it would be crazy not to say that's going to happen.

But having said that, we are still seeing activity in our development pipeline. Let me just make a general comment about it, and then I'll turn it over to Ted. About half of our development pipeline in Europe is in Central Europe, believe it or not, is still seeing really good activity. We still have a good amount of our development pipeline in Japan, and we are still seeing good activity there. So, while we are seeing softness in the market, and we expect to see softness in the market, the development pipeline is still leasing. I'm going to turn it over to Ted, and he'll talk a little bit more about that.

Ted Antenucci: Yes. Mark, in terms of where we intend to contribute assets and where we intend to hold, we mentioned we do intend to do one more contribution in Japan. The balance of the contributions will likely be in Europe, where we still have substantial fund capacity, and in Mexico. In North America, we don't anticipate fund contributions this year.

Interestingly enough, in our Europe pipeline, we've got over $900 million worth of leased space, which matches up well with what we intend to contribute in 2009. So there's not a lot of leasing necessary to achieve our goals in Europe for contributions in 2009.

Of our total leasing, we've got about 36 million square feet in our development pipeline to get leased – about a third of that is in Japan. About half of it is in Europe, and the remainder is in North America. As Walt mentioned, in Eastern Europe demand has still been reasonably strong, and we still have great activity in Japan. If you were to talk to our people, and we do on a regular basis, you would know we have good activity on at least a third of the space that we have available on the market right now.

If you take a look at our leasing over 2008, and extrapolate that into our current pipeline, there's a little over a year's worth of inventory. If you were to look at it a little bit more cynically and say, well you know 2008 may not be reflective of the environment we're going to see in 2009, and you took the fourth quarter of 2008 and extrapolated that, we've got about a year and a half to two years worth of inventory to lease up. So, we're guiding people to somewhere between 1 and 2 years of lease up of our current pipeline.

Operator: Our next question will come from Ki-Bin Kim with Macquarie.

Ki-Bin Kim: Could you talk about your North American portfolio that you're marketing right now. How far along is the marketing process, or actually the sales process? Has that gone to the end game actually assigning for sale?

Walt Rakowich: I'll let Ted answer that question, and – go ahead, Ted.

Ted Antenucci: Yes, we started marketing that portfolio probably late in December 2008. We have received a great deal of activity. We have received over 80 offers on several different portfolios. We don't intend to sell all of the assets that we have offers on but the demand has been significant and the interest level is high. Obviously, in certain markets the pricing is all over the map. We expect to conclude a sale or some sales sometime at the end of the first quarter, or early second quarter. We expect to see – I know pricing's going to come up – so, we expect to see pricing in the single digits, I mean that's where the competitive offers are right now.

Walt Rakowich: Yes and just to add to that, we've seen a broad range of buyers. I mean we've seen people come in at $25 to $50 million, and then we've seen other people come in at $200 plus million. So they're all over the map but frankly, as Ted said, we've been encouraged. At this point in time, we'll report back when we have more information to report back on.

Operator: Our next question will come from Lou Taylor with Deutsche Bank.

Lou Taylor: Thanks, good morning guys. Bill, can you just go over the guidance again? It looks like there's roughly four pieces in here. So you're guiding to a $1.85 to $2.05 with the Japan gain and other gains in there as well but offset by the APB14.1 expense in there. Is that – is that correct?

Bill Sullivan: Correct.

Lou Taylor: OK. Then just as a follow up, in terms of the $1.3 billion of sales that occurred, or contribution of the funds that occurred, in Q4, how is that capital applied? Did it repay debt? Did it fund development? Because it didn't look like the debt and cash balances had changed materially at 12/31 versus say 9/30?

Bill Sullivan: Well in the grand scheme of things, if you sort of work through some of the math on the funds put into the development pipeline, a large portion of… First of all, of the $1.3 or $1.275 billion, there was about $285 million used for various co-investment activities. So it left about $1 billion. That was used for various purposes in terms of attacking the 2010 bonds, as well as expenditures on the pipeline. Our expenditures on the pipeline have come down now to a total of only $885 million left. So in large part, and Lou, there's a lot of little ins and outs here and there, but that takes up the vast majority of it.

Walt Rakowich: Yes, I mean Lou, when we met in November, recall that we had a cost to complete the pipeline of around $1.7 billion, I believe.

Bill Sullivan: Right.

Walt Rakowich: And that cost to complete has gone from $1.7 billion to $885 million now. So effectively the fourth quarter contributions paid for that, plus other things.

Operator: Next we'll hear from Jay Habermann with Goldman Sachs.

Jay Habermann: Hey, good morning, here with Sloan as well. Guys, could you walk through the development pipeline? You got the $5 billion currently in process, plus the $2 billion of existing partner equity. Then, of course, you talked about keeping the additional $3 billion potentially on balance sheet, or possibly looking at JVs, et cetera. But I just want to walk through a few different scenarios. Number 1, does this you offset the $2 billion of de-leveraging that you're talking about? Number 2, can you talk about pricing of assets in Europe? And three, just update us on where you think covenants, where you might stand as you look into 2010?

Walt Rakowich: Let me start off by saying that in terms of the de-leveraging process, in essence if you look at – Bill sort of took you through the math , but I'll kind of take you through the math again. If you're looking at China at $1.3 billion and an additional set of asset sales at call it $1.2 to $1.5 billion. OK, then you're talking about the completion of the development pipeline of call it $800 million this year. Keep in mind, we have $885 to complete but $200 of that's not going to spent unless you lease it and since we don't expect to least it all, let's call it $800 million. You substantially get there without any other activities.

If you take the $1.3 to $1.5, and say, OK, how much of that is, if you will, sales off our balance sheet and how much of that is contributions? Ted just said a minute ago that we have leased already in Europe $900 million, that is 93% plus already. So the point is that we feel like we're pretty far along in terms of leasing and contributions. We just have to finish up buildings, contribute them – and some of that's going to be in the form of contributions and some of it in the form of asset sales in the U.S and some of it could be joint ventures in other areas of the world. The bottom line is if you take the $2 billion minus the development completions, you substantially get to where you need to get in terms of de-leveraging. We've not talking about all the activities that we've got going on, but that's what we have in front of us right now.

Ted Antenucci: Yes, Jay, actually to be more specific, I did mention over $900 million leased in Europe, and that is accurate. Of that $900 million, $620 million is greater than 93% leased, so I just wanted to clarify that one point. And then, relative to pricing of assets in Europe, I think pricing of assets in Europe is similarly challenging to pricing of assets in the US, I mean there's just not a whole lot of transactions to look to. We talked about how we modified our arrangement with our fund partners in Europe to allow us to continue to do contributions through an environment that is very challenging relative to appraised values. We have a system in place, we're comfortable with how those values are going to be determined. And we feel pretty good about our ability to contribute a substantial amount of assets in Europe in a way that's going to be fair to both ProLogis and our fund partners. I think we made a lot of progress in fourth quarter contributions, and, if you note, our fourth quarter contributions overall had pre-deferral margins of were 14-1/2%. So, even if you assume cap rates are moving by 50 to 100 basis points, you're still in the money on contributions on an overall basis.

Walt Rakowich: And let me just make one other point, Jay, which I think is important that we get out. We do have $2 billion of partner equity that's out there. Having said that, we are going to rely on some of that as a source of capital in '09. But look, it's a long-term business. We are investment managers, and our reputation as balanced fund managers managing the funds for investors is critically important to us. So while there's that much equity in place, we've got to look at each fund, as I was saying in the comments, discuss the strategy with them and come to a balanced solution. In some cases, we may use some of that partner equity to pay down debt. If that's the right solution for that fund, we're going to do that. So we continue to look at that strategy as well.

Bill Sullivan: Jay, as for the last part of your question, on the covenants, we look at those intently obviously these days. And as we look out at our game plan for 2009, 2010 and beyond, we believe that the covenants will not present a particular issue to us. But that's all dependent on what happens with the economy. What happens in a variety of different things. But again, we think we have pretty good coverage on that now.

Operator: Our next question will come from Steve Sakwa with Bank of America.

Steve Sakwa: Thanks, good morning. I wanted to stay on the development theme for a minute. If you look at page 3.2, you lay out about $3 billion of developments. I'm trying to understand, since you're now moving to a strategy of keeping things on balance sheet, can you talk a little bit about the development yields? I guess that's something that's never really been focused on as it's been more about margin. Could you talk maybe about where the development yields are? And what dollar amount do you expect to bring on and keep on the balance sheet in '09 and '10?

Bill Sullivan: Well let me talk about what's going to stay on the balance sheet, which is anywhere from $3 to $4 billion of the $5 billion pipeline. Again, part of that depends upon where we create the liquidity from – some of the asset sales in the US, et cetera, and what other joint ventures or funds may arise. But I'd assume a minimum of about $3 billion and a max of about $4 billion out of the $5 billion will ultimately stay on the balance sheet.

Ted Antenucci: Yes, Steve, it's Ted. The development yields, as you know we're developing throughout the world and a significant amount of our development is in Japan where yields are substantially lower but so is debt. And so I would say, if you were to generically take a look at our yields, they're going to between 6% and 8% in different parts of the world depending on where you're at and how that market looks. In some of the markets, we certainly underwrote to higher yields and we're not going to hit them. I think if you were to use a 6% to 8% range in aggregate, that would be a fair reflection.

Walt Rakowich: Six percent meaning Japan.

Ted Antenucci: Correct.

Operator: Next we'll hear from Jamie Feldman from UBS.

Jon Petersen: Hi, this is Jon Petersen, thanks for taking my question. Can you talk a little bit about your decision to contribute all the developments into all the funds at all equity and what kind of pushback you guys have got from investors? And then kind of going along with that, as you think about your business model maybe 3 to 5 years from now, maybe ramping back up the development pipeline and the contributions business, can you talk what doing all equity this year means in terms of the business model down the road? And what sort of things you do differently as you ramp the business all back up as credit markets ease?

Bill Sullivan: On the all equity front – look, at the end of the day, if the credit markets lighten up and are available, there may be a scenario under which we'd put a modest amount of leverage on the contributions and expand the availability of capital inside the funds. In this environment, from a conservative standpoint, our focus is first and foremost in terms of obtaining new permanent financing, of which candidly there's more activity and more opportunity than some people may understand or realize.

But our first focus is on de-levering – or on replacing some of the 2010 maturities inside those funds and perming those out to a longer timeframe. And so with that, we're intending to in essence de-lever the overall funds by focusing on all equity contributions in 2009. You want to take the second part of the question?

Walt Rakowich: Yes, I would say, Jon, that first of all that I really do believe that in good times there are tremendous opportunities in terms of developing industrial properties. I think we all believe that. But I don't think that the opportunities will be there just to do it on our balance sheet. There is more opportunities than there are funds available, if you will, to do it all on balance sheet. And so we are looking very, very closely today at doing a lot more development inside of our funds.

It's interesting, if you talked to our fund partners over the years, they would have loved to do development with us. Frankly, it was our choice not to do that. As markets recover – and we're not there today – but as markets recover and development does come back, clearly we're going to continue to develop. I mean shoot, we've got in my view the best development platform in the industrial business throughout the world and would be crazy not to.

But it's really a question of how you do it, and I see us doing it less 100% on balance sheet, and more, through our fund structure by aligning our interests with our partners such that they're doing development and are doing acquisitions with us in the future. We're leveraging off of our investment management platform and our platform of the people to provide a service to those investment management partners over time.

Operator: Next we'll hear from David Fick with Stifel Nicolaus.

David Fick: Good morning Three-part question. The retroactive adjustments, and then the forward ratchets on the value adjustment that you had to make with some of your fund contributions, I assume that those only go one direction?. Number 2, should we assume any value in promotes from here? You've talked a lot about that over the years, but I assume that with the impairments, there's an implicit loss of those promotes. And then thirdly, sort of wrapped around all of that, I'm sensing an inconsistency in how you're reporting and planning to report FFO. On the one hand, you're out of the development business, on the other hand, you're finishing up some development, and you've consistently reported the gains in FFO. But going forward, you're sort of selecting which assets are being sold and excluding from FFO and others that are being included in FFO. It just seems to me that if the development model is broken, why won't you just take that out of the FFO entirely, or is that just too draconian for your multiple?

Walt Rakowich: OK, Dave, this one I'm going to ask Ted to hit the first one, and – or Ted, if you want to hit the promotes, I can hit that, and then, Bill, maybe you can talk about the FFO.

Ted Antenucci: Yes, Dave, I'll talk about the adjustments on the fund contributions. In meeting with our fund partners, there was clearly a concern about appraisal lagging the market. And to try to address that, what we did is we came up with a mechanism where we adjusted the appraisal pricing down throughout 2009. It's 75 basis points in Q1, 75 basis points in Q2, and goes to 50 basis points, then goes to 25 basis points, in Europe specifically, with a look back effectively in December of 2010. So if in December of 2010, the values are not reflective of the contribution values, and are higher, we get a pick up, or catch up, if you want to call it. So we've kind of quantified our worst case scenario. That's what you will see in terms of the numbers we report throughout 2009 and there will be an up side to those numbers potentially, depending on what appraised values come out at in 2010. That was our way of kind of bridging the gap if this value adjustment is a short-term, downward adjustment, we have the ability to get whole. And if it's a permanent downward adjustment, our fund partners were treated fairly.

Walt Rakowich: Dave, in terms of the promotes, there's a promote in each of the funds. They depend on the years of course that we negotiated the deal that we set. For example, the open ended funds tend to have a promote every 3 years, I do believe that there's a promote coming up in NAIF, in the North American open ended fund this year, and I believe there's one in PEPF II next year. There's a promote every year that we're eligible for in PEPR, et cetera, et cetera.

And I would say you're right. For the next year or two, I mean I don't know, we haven't calculated it, but I think values are going to be down and a lot of those promotes are based on value. So there are going to be some years we get it and there are going to be some years that we don't. We're not planning any promotes this year in our guidance, nor does Bill have any promotes in his sort of base numbers. And so, as I said, some years you're going to get it, some years you're probably not, and we probably aren't in a great position right now. So we'll just have to see how that goes. And then, Bill, maybe you can take the last part.

Bill Sullivan: Yes, I'd just add to that a little bit, Walt. We're not counting on it. We're not guiding to it or anything else, but looking at Q4 '08 and into 2009 our fund partners are going to be getting these properties at a higher current returns, lower values, which candidly under the promote structures that are in place may offer an opportunity, if markets settle back, down to generate the promotes. And so those opportunities may still be out there, and enhanced, quite frankly, because of the current contribution values. But we're not guiding to it or we're not counting on it. We're putting those to the side, and we'll identify those opportunities as they arise.

On the FFO front, the gain associated with Japan is the recognition of previously deferred gains, which we've always recognized as FFO. The other contribution activity in 2009 – again when we contribute properties out of our development portfolio, we recognize FFO to the extent that the contribution value is above original cost so that activity will continue. In the future, you'll see us create larger development management fees, et cetera, all of which are always in FFO.

In terms of looking at our reconciliation for 2009 from net earnings to FFO, you'll see that we have gains in there targeted for this year, basically off of our sales of assets. Interestingly, and we anticipate generating a significant amount of gain out of our sales of assets off our balance sheet this year, those do not go into FFO. So you know our long-term hold assets do not but our near-term development properties will and that's the way it's always been treated.

Operator: Our next question will come from Chris Haley from Wachovia.

Chris Haley: Hey, Walt. If I may, I'm just recognizing that you're limiting the questions, maybe just to throw out a few here for you, and see what you can do. First, in the '09 guidance, does it reflect the pending North American asset sales? Secondly, on the fund appraisal adjustments, Ted, recognizing that you've made these basis point adjustments on a sequential basis, should we take that off of a current cap rate number and that's the new cap rate that will be used in terms of an inflation factor – 75 basis points in each quarter for the first and second, then another 50, then 25, and then it's static in 2010? And then the last question, on the leverage ratios, when I look at debt-to-total assets, currently in mid to high 50s, I'd be appreciative of a review where you think that ratio, will get into 2010, middle later part of 2010, when the business model's a little cleaner?

Bill Sullivan: All right, let me take the first and the third, and then Ted, you want to take the middle part?

Ted Antenucci: Sure.

Bill Sullivan: The asset sales off the balance sheet are in our budget and our plan for 2009, but they do not generate FFO. So they are not part of the 2009 – as I mentioned with David Fick's question – we expect to generate a gain off of those asset sales but those will hit net earnings not FFO.

In terms of the debt ratios, they're mid to high 50s today. That's higher than we would like. In the relatively near term – I don't know, Chris, whether you want to call that 18 months to 2 years – we'd love to get that down into the 45% or below range. Just in our game plan as it relates to 2009 with our de-leveraging plan, that'll probably end up somewhere in the very low 50s, potentially the high 40s. That's dictated off of us reducing debt substantially in 2009, but it's also going to be off of a slightly lower asset base as we contribute to funds and sell some assets. So I expect that'll end up in the low 50s at the end of 2009, and our goal is to get it substantially lower.

Ted Antenucci: And Chris, it's Ted. On the appraisal process and the valuations, I think the best way for you to look at it is that our expectation is we're going to be contributing at about cost in 2009. There are actually you know other aspects to the valuations that are not material, but do come into play. We do not have an obligation to contribute at below cost. If, when you make the cap rate adjustment, it came in at below cost that would not trigger an obligation for us to contribute. It would allow us to move it into another quarter, yet another quarter, yet another quarter, until the basis points adjustments ratcheted down, there would be new appraisals along the way. But from our budgeting standpoint, our expectation is we're going to be contributing these assets at cost, and I think that's probably a good barometer of where we feel the market is today.

Walt Rakowich: And, operator, we're going to take one final question, and then wrap up.

Operator: Our final question will come from Michael Mueller with J.P. Morgan.

Michael Mueller: Great, hi. I guess following up on Ted's comments there, if we should assume you contributed costs, where does the $80 million of recurring gains come from? The development gains that Bill, you said was in the numbers? That was one question. And the original question was, if we look at the '09 and '10 fund debt schedule that matures, can you give us an idea of the average maturing rates as a whole for each year, and where you see the new rates?

Walt Rakowich: We'll hit on the $80 million first that we have this year.

Bill Sullivan: Right. You know, Ted's probably euro focused right now.

Ted Antenucci: Yes.

Bill Sullivan: We do have margins within various asset pools that will be contributed especially in Japan, and even in Mexico, and potentially in Europe itself. But additionally, there are going to be new funds and new joint venture interests created that will take some of those contributions. But we also believe, as I talked before, about the fact that – and it's interesting you know this world is on a downturn right now. But the fact is, it's not an oversupplied situation. We have an incredible amount of activity, or discussions and requests for build-to-suit activity. So we're going to generate FFO out of development or development management activity. Maybe Ted or Walt can address that later.

In terms of the debt maturing in '09 and '10 and I don't have the rates. I have them here, I just hadn't anticipated that first part of that question. But at any rate, the rates are all over the board in terms of what's rolling versus what's coming on. Some of them are in the high sevens and low eights today. You know the bonds that mature later this year, candidly, are at very attractive rates off of LIBOR on the balance sheet. And so overall, it's at a whole variety of rates. I don't have the specifics so I couldn't quote you sort of the weighted average on that. I apologize.

But in terms of the refinancing rates right now – the long-term debt that we're looking at in the US – in the conversations that we've been having it is sort of high sixes to mid sevens. That is what we're seeing – maybe call it a range of 6.75 to 7.75, depending on maturity. In Europe, the spreads that we've been quoting, and there's sort of market flex built into those, but I think you could probably swap out on some of the European activity that we've got going in the low to mid sixes – call it a range of 6 to 6.75. And in Japan, it's probably 2 to 2.50.

And so overall, the spreads on that are wide. As I've said for a long time, you can't get hung up from an egotistical standpoint on spreads. You've got to look at coupons. And so that's where we're focused, so it's not completely in the grand scheme of things unattractive.

Ted Antenucci: Michael, just to also respond. Bill's right. I was euro focused when we're talking about the fund contributions and the fund contributions I was outlining were specific to Europe. I think, if you step back and you take a look at the size of our company and the assets that we have, even in a down market, there's going to be ways for us to make money. And a few of those that are in the budget this year are some land sales that are already priced, that are solid sales where we do make money. There's some fee developments. There is potential for some pre-sales of buildings. There are user sales of assets. We've actually got a lot of different ways to generate gains. As long as it's the range Bill's talking about, I do think it is a reoccurring opportunity for us. We're active throughout the world in a lot of different areas, and opportunities do come up.

Walt Rakowich: All right, let me make a couple final points. It should be obvious to you that our number one priority is de-levering, de-risking our balance sheet through a number of initiatives. We will accomplish this goal this year.

But what's the prize ahead? Well, Bill talked about base business in the $1.35 to $1.55 range of FFO. That's a base business. That's with $5.5 billion of non-income producing assets. Near term, we’ve got to lease up our development pipeline. If we do, that adds $0.75 to $0.90 to that base business per share. Intermediate to longer-term, we got to develop and monetize $2.5 billion of land, which adds an additional $0.65 to $0.75 per share.

We've got tremendous up side imbedded already in our balance sheet paid for, and we don't think that we're going to need much capital to extract it. I'd like to thank all of you for your support during these tough times, as we said in November, don't trust us, watch us.

Thank you, operator, we're done with the call.

Operator: And that does conclude today's teleconference. To access the replay of today's call, you can call 1-888-203-1112, or 719-457-0820, and use the pass code of 4370237. Once again, to be able to listen to the replay of today's conference, you can dial 1-888-203-1112, or 719-457-0820, and use pass code 4370237.

And once again, that does conclude today's teleconference. We'd like to thank everyone for their participation, and wish everyone a wonderful day.

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