PROLOGIS

Moderator: Melissa Marsden
July 23, 2009
9:00 am CT

Operator: Good morning, my name is Jessica, and I will be your conference facilitator today. I would like to welcome everyone to the ProLogis Second Quarter 2009 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 speakers 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. The questions will be taken in the order in which they are received.

Also please limit yourself to one question at a time. At this time, I would like to turn the conference over to Ms. Melissa Marsden, Managing Director of Investor Relations and Corporate Communications with ProLogis. Please go ahead, ma'am.

Melissa Marsden: Thank you, Jessica. Good morning, everyone and welcome to our Second Quarter 2009 conference call. By now you should all have received an email with the link to our new supplemental, but if not the documents are available on our Web site at prologis.com under Investor Relations.

This morning we'll first hear from Walt Rakowich, CEO, to comment on progress relative to current initiatives and the overall environment. Then Bill Sullivan, CFO, will cover results, guidance and refinancing activity.

Additionally, we are joined today by Ted Antenucci, President and Chief Investment Officer, and Chuck Sullivan, Head of Global Operations.

Before we begin our prepared remarks, I would like to state 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 in our 10-K.

I would also like to add that our second 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 reconciliation to those.

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: Thanks, Melissa and good morning everyone. There are three main thoughts that I would like to cover today. First, the progress we've made since November of last year has put the company and its future on much firmer financial footing. Our balance sheet is stronger and we have substantially more liquidity.

Second, like most observers, we expect the industrial market to continue to be rough, but with our improved financial condition and best in class portfolio, we're positioned to work our way through it.

And third, we have a great deal of work still to do, but it's work we know how to do, and work that we've proven we can and will do in the months ahead.

Let me briefly recap our significant accomplishments related to the plan we laid out in November 2008. Since then, we completed more than $3.6 billion of asset sales and contributions. We raised $1.1 billion of equity, bought back over $1 billion of bonds at a discount of about $300 million, reduced our at-risk development investment by $2.2 billion and substantially funded the remainder of our development portfolio while reducing our on balance sheet debt by more than $2.9 billion.

We also have reduced our gross G&A for 2009 by $120 million and, on a 2010-run-rate basis, by $150 million per year, or 37%, from 2008 levels. In addition, we're close to extending the maturity of our global line of credit, which Bill will have more on shortly.

Our key priorities continue to be enhancing liquidity and reducing risk. This has to remain our focus for navigating through this environment. However, with major deleveraging progress under our belt, you will hear us talk more about further laddering out of our debt maturities, leasing our development portfolio and addressing fund issues where they need addressing. We also are developing a somewhat modified structure for future development activities that requires much less of the company's capital. In doing so, we'll generate returns from currently unproductive land, while leveraging our development organization to serve customer needs, without putting undue pressure on our balance sheet. In addition, we believe there will come a point at which we will be positioned to capitalize on the eventual recovery by leveraging our investment management platform and external capital sources to take advantage of opportunities. But we aren't there yet and we don't intend to be diverted from our focus on the priorities immediately ahead.

On the operational front, overall, global industrial demand remains soft. Occupancies are still declining, but at a slower pace in many areas of the world. Our overall core occupancy rate of 92.5% reflects this, down 54 basis points in Q2, compared to a reduction of 169 basis points in Q1. However, we’re now seeing more significant rental rate declines, which historically lag occupancy declines by a few quarters. I should note that prior to this cycle, our lowest ever-quarterly occupancy level was 90.2% in the fourth quarter of 2003, whereas we didn't see the lowest point of negative rental growth until the second quarter of 2004

Right now, our best estimate is that market rents are down roughly 10% to 15% from last year and 15% to 20% from peak rents in late 2007 and early 2008. Will rates decline further? Well, it is hard to say, but in all likelihood, these lower rent levels will persist throughout the balance of this year. Of course, a lot will depend on whether or not we see continued stabilization of occupancies. I do think it’s interesting to note that market rents today are significantly below replacement cost rents at today’s yields. Long term, in our view, this is unsustainable, given the demand for new space driven by obsolescence and the ongoing reconfiguration of global supply chains.

Other market indicators are beginning to show some additional light at the end of the tunnel. The consensus forecast calls for the U.S. recession to have bottomed out in Q2, with positive real GDP growth resuming in Q3 or Q4. A key driver for this forecast is industrial production and inventories, both of which fell earlier this year, driving approximately one-third of the decline in GDP in Q1. In fact, U.S. inventories have fallen four out of the last six quarters. However, global production is picking up and most people predict that inventories will need to be replenished in the second half of the year. If this happens, it will be significant for our business.

Other positive indicators we're seeing include an increase in requests for build-to-suit proposals and of course, speculative development is virtually nonexistent.

During Q2, we had solid leasing results in our development portfolio. In total, activity picked up in late May and early June and we ended up leasing over 5 million square feet during the quarter, bringing the leased percentage in our static 12/31 development portfolio to 54.1%, from 41.4% at the beginning of the year. As a result, we're on track toward our goal of reaching 60% to 70% leased in this portfolio by the end of the year.

You probably have noted some recent announcements we've made related to our new build-to-suit development activity. In our Q1 webcast and recent meetings, we've talked about how we're working on ways to partner with others to generate returns from our land bank. We're pleased to have recently signed some of these transactions. Yesterday, we announced the build-to-suit for Kirin Logistics, outside of Tokyo. We will build the building on land that we own and a Japanese venture partner will put up the incremental capital for development upon completion. The transaction is a way for us to pre-sell a build-to-suit to a major institutional investor and generate a return on our lands through rent and management fees after the building is complete.

In Europe, we recently announced another build-to-suit for a major global customer, where we will build a facility on our land and contribute it to PEP Fund II at a pre-committed value. Importantly, we expect these transactions to be breakeven to marginally profitable, with land included at our book basis. We also expect to sell a number of land parcels before the end of the year.

Currently, we have several transactions in the works as part of our land monetization strategy.

More on this to come, but between these expected sales and the build-to-suit business we either have or expect to secure, we are hopeful to sell or begin to generate a return on $200 to $250 million of land currently on our balance sheet by the end of this year.

As for our funds under management, we are making significant progress on all of our near-term debt maturities which Bill will cover in more detail in a moment. I'd like to note however, that we are keenly aware that some funds are better capitalized than others, and we're having discussions with all of our fund partners on valuations, debt maturities and market conditions. We believe those discussions will ultimately result in sensible solutions for all parties, but some of those solutions may take some time to sort out.

Finally, let me just say that, although we are currently focused on getting through the current cycle, we believe the steps we are taking today will also put us in a position to capitalize on future opportunities when the time is right. While the bulk of our attention is on the present, we remain mindful of our future. Now, let me turn it over to Bill.

Bill Sullivan: Thanks, Walt. I would like to cover three topics today. First, I will recap the Q2 results and initiatives, as well as provide commentary on guidance for the year. Second, I will address the status of our recasting efforts, relative to our global line of credit and other on-balance sheet debt maturities. Finally, I will address progress in current activities relative to our fund debt maturities.

From a balance sheet perspective, Q2 was an extremely productive quarter for us relative to the game plan we laid out last November. We have de-levered the balance sheet by $2.9 billion since November, with $1.44 billion of that amount in the second quarter. This was accomplished principally through our follow-on equity offering of $1.1 billion in early April and the execution of our asset sales and fund contributions of approximately $840 million, the combination of which was partially offset by our co-investment requirements, continued funding of the development portfolio and pre-committed investments in land and land infrastructure. Additionally, we generated $143 million of gains from buying back additional bonds and convertible debt at discounts. In total, since December, we have repurchased nearly $1.2 billion of bonds and convertible debt, generating nearly $260 million of gains and over $300 million of notional value de-levering. Finally, we also closed on approximately $400 million of secured financings in Q2.

As we stated, in our Q1 conference call remarks, 2009 is going to be quite confusing from an earnings standpoint, given the effect of our increased share count and all of the activities we are undertaking to restructure the balance sheet, generate liquidity and address similar issues inside the funds. Q2 held up its end of the bargain from a confusion standpoint.

We generated FFO of $0.34 per share in Q2. However, there is a lot of noise in that number relative to what our core ongoing operations would produce. Netting out $0.35 per share to the upside from the gains on debt buy backs and $0.20 per share to the down side from impairments, led to FFO excluding significant non-cash items, of $0.19 per share. Both the $0.34 and the $0.19 per share were negatively impacted by $0.06 of unusual and/or nonrecurring charges related to ProLogis' share of loss on the sale of assets by PEPR, a realized loss on a foreign currency transaction and costs associated with our Q2 workforce reduction.

We remain comfortable with our full year 2009 FFO guidance of $1.31 to $1.48 per share, when adjusted for the type of non-cash items and non-recurring charges discussed earlier. Please remember that this per share guidance is based on our estimated full-year weighted average shares of 395 million. Taking these adjustments into account, through the first six months of 2009, we have generated FFO of approximately $338 million, or $0.86 per share.

Relative to continued liquidity activities, we have previously outlined a game plan to sell and/or contribute assets totaling $1.5 to $1.7 billion in 2009, of which approximately $1 billion has been realized so far.We have incremental contribution and asset sales, targeted for Q3 and Q4, sufficient to achieve this guidance and took nearly $85 million in impairments in Q2 in anticipation of second half sales and contribution activities. These impairments represent approximately a 14.1% discount to our basis, based upon our estimated contribution values, inclusive of the 50 and 25 basis points cap rate add-on in Europe for Q3 and Q4 respectively. This would translate to a 10% discount to basis, if we were contributing the assets at the estimated appraised values, a tough pill to swallow, but reality, given the environment in Europe at this point.

Let me now turn to the progress we have made relative to amending and extending our global line of credit. First, we have formally exercised our option under the existing line, extending the maturity to October 2010. Second and more importantly, as we have discussed in previous communications, one of our goals for 2009 is to reduce the size and further push out the maturity on our global line. We had targeted a size of $2 to $2.5 billion with a maturity in 2012. At this point, we have commitments in hand of approximately $2 billion, with an additional $100 to $300 million potential that are in credit committee hopefully to be received this week.

We've been working hard toward our goal, and we truly appreciate the efforts of our bank group in working with us in this current environment. At this point, we expect to conclude this process in August and expect the final extended commitment level will be in the range of $2.1 to $2.3 billion. In retrospect, this will be a particularly rewarding accomplishment in this environment. Candidly, it was much more difficult than I originally expected but an incredible outcome nonetheless.

At June 30, 2009, we had approximately $850 million outstanding under our global line of credit, inclusive of the multicurrency facility. The extended capacity under that line will be more than sufficient to eliminate our remaining 2009, 2010 and 2011 debt maturities, assuming no incremental liquidity initiatives take place. However, we have no intention of letting up at this point and will continue our focused effort to address debt maturities through 2013, continuing to access capital through a variety of initiatives.

Excluding the global line, we have approximately $3.3 billion of debt that will mature in 2012 and 2013. This is not lost on us and we intend to act on this expeditiously, with a target of repaying and/or extending these debt maturities by mid 2011.

Finally, let me discuss our activities and progress relative to debt maturities inside our funds. At this point, we have no remaining 2009 debt maturities other than scheduled principal payments. Notable in the fund debt maturity schedule is the extension of the Citi $411 million facility in NAIF II for five years, with an incremental two-year extension option. This extension was accompanied by an incremental investment by ProLogis of approximately $85 million. It closed on July 1 and, from our perspective, was a great resolution to a very difficult situation, given the current economic environment. This incremental investment will earn a preferred return and together with our existing capital investment, will have a priority in equity distribution.

Clearly, in this environment, some of our funds are too highly levered. We have been and will continue to work through those issues. But for the immediate future, we are heavily focused on dealing with the 2010 debt maturities of nearly $3.1 billion and are making very good progress.

For discussion purposes, let me address the 2010 maturities in three buckets. First, we have approximately $390 million of secured debt in six different U.S. funds that mature in 2010. We are in active discussions on each of these with lenders and fund partners and have a goal to close on refinancing and/or extensions on each of these by year-end 2009. One or more of these may require a modest incremental investment from both we and our fund partners, but at this point we do not anticipate this to be a material amount.

We have approximately $1.2 billion, or 880 million Euros, outstanding under our PEP II bank line which matures in May 2010. We are in active discussions with this bank group to extend this maturity for one year to provide some cushion while we implement on a longer-term secured debt financing. We expect to execute on this extension in Q3. Regardless of the extension, we have five separate financings, totaling approximately 340 million Euros that have been Credit Committee approved and are in final due diligence and documentation. We have an additional four financings, totaling approximately 230 million Euros in the early but active stage at this point. One more arrow in our quiver relative to the debt of PEP II is the ability to draw down on what will be approximately 640 million Euros of unfunded equity commitments, following plan contributions for 2009.

Finally, we have approximately $1.47 billion, or 1.05 billion Euros, of debt inside PEPR that matures in 2010. These maturities are associated with three distinct financings. The first is a 151 million Euro secured bank deal, with Hypo Real Estate. We will pay down approximately 25 million Euros on this from cash on hand and have executed all documentation on a three-year extension for the remaining 126 million Euros. This pay-down and extension is expected to be accomplished within the next 10 to 30 days.

We have 524 million Euros of CMBS debt that matures in May 2010. We are hopeful of paying down this debt prior to year-end 2009, through a combination of cash flow from operations, crystallization of a hedge gain and a variety of secured debt financings that are currently active. The first of these totaling 86 million Pounds, or 100 million Euros, will close this week. There are seven other financing packages totaling over 650 million Euros in various stages of review, approval and documentation.

Finally, after utilizing the majority of the proceeds from the asset sales, concluded in Q2, to pay down a portion of the bank line, there are 380 million Euros outstanding under PEPR's bank line that matures in December 2010. We have initiated preliminary discussions with lead banks on extending this facility, while we implement on our longer-term de-levering and debt refinancing strategy. It is our intent to repay this line, through cash from operations, excess secured debt proceeds, following the repayment of the CMBS debt and other strategic initiatives, which may include incremental asset sales, as well as an issuance of incremental capital.

PEPR is in discussion with regulatory authorities regarding a conversion from an FCP structure to a SICAF structure, which would facilitate its ability to issue new capital.

In closing, let me just say, that I think we have accomplished an incredible amount in the last six months. Probably even more than we thought possible. We have no intention of stopping at this point. The capital markets have opened up substantially since the beginning of the year, but are still tenuous at best. Therefore we intend to continue to aggressively pursue and attack all opportunities to de-lever and de-risk both ProLogis and our funds. With that, let me turn it back to Walt to wrap up.

Walt Rakowich: Thank you, Bill. Before we open it up for questions, let me leave you with three final points, and I will be brief. First, over the last nine months, we've created $5 billion of liquidity and paid down close to $3 billion of debt. We have proven we can execute in a tough environment.

Second, our work is not done. We’re a stronger company today, but market conditions are still tough, and are likely to remain that way for a while. However, we know we have to do and we are mono-focused on the continued execution of our plan.

And finally, the steps we’re taking today will put us in a great position tomorrow, when the time is right to invest. We’re not quite there yet, but we are mindful of our future.

Nine months ago, we told you not to trust us, just watch us. In this market, very few people trust, so keep watching us, as we think that you will continue to like what you see. Operator, we’re able to open it up for questions.

Operator: Our question and answer session will be conducted electronically. If you would like to ask a question of our speakers, please press the star key followed by the digit 1 on your touchtone telephone.

Once again please limit yourself to one question at a time. Once again that is star 1 to ask a question. We will pause for just a moment to assemble our roster.

And our first question comes from Mark Biffert with Oppenheimer Company. Your line is open.

Mark Biffert: Good morning everyone. Ted or Walt, I was wondering if you could comment on the leasing environment a little bit more. The pace of your leasing of roughly 13 to 14 million square feet during the quarter is kind of accelerated over the first quarter, and I'm just wondering if you're seeing trends improve? Have rents fallen to a level where you're seeing the demand come back to the market? And who are the types of tenants, as well as have you adjusted your credit terms in terms of allowing in lower type credit tenants to come into the portfolio just to fill space?

Ted Antenucci: Mark, I will do the best I can in answering all of the questions, but I may miss one or two. You know, we saw an increase in the velocity on leasing in the end of May and June. Early in the year there was a lot of wait and see. I think it is still a slower environment than it was in 2008 and 2007, certainly. But definitely appears to be improving, compared to the first quarter and the first couple of months in the second quarter. So, we're seeing a pickup.

Rents are certainly down. It's a competitive environment. Occupancy levels are down, but down at a lesser pace in Q2, than they were in Q1.

I think in general credit of most companies has deteriorated over the last 12 months. We're not doing a lot of marginal credit deals - I mean - we're not having to stretch on that. I think it's similar to what it was in the past. I don't see any significant change in the way that we're looking at our underwriting.

We’re certainly mindful of TIs and commissions on deals where companies don't have great credit.

We are seeing a slight increase in discussions toward longer-term leases. Although, so far, we have been doing shorter-term leases, but it appears that some of the customers are anticipating that we are getting toward the bottom of levels in rent and wanting to lock in those lower rents for a longer period of time. That appears to be a trend that we might see through the balance of this year.

Walt Rakowich: Chuck, would you like to add anything to that?

Chuck Sullivan: You know, Mark, with regard to the credit of the customers, we’re still as rigorous, or more rigorous, than we have been in the past of paying close attention to them. They’re looking for an economic transaction, and we are very cautious about how we are structuring those deals, per Ted’s comment.

There is a lot of activity. You asked a question about the types of customers we are seeing, and it continues to be driven by third-party logistics activity, as companies are trying to drive costs out of their supply chain. So they’re looking to, on a global basis, they’re actually looking to essentially shop around. That’s actually quite a good thing. You see activity levels in the market had dropped precipitously in Q4 and now, they’ve increased, and they’re moderate.

Walt Rakowich: Mark, I’d add one last comment to this. We have done a 15-year analysis for this, and the thing is, as GDP goes, so does our business in the U.S. Now, our business is driven more by other factors outside of the U.S., such as obsolescence and a switch from ownership to leasing and the like. But in the U.S., as GDP goes, so does our business. So I think if we see a pickup in GDP in Q3 and Q4, I do believe that we'll continue to see occupancies moderate to the down side - meaning that we won't see as much a decline. Who knows? One quarter doesn't make a year, but that’s what we’re beginning to see.

But I think also, we should caution you that for the next couple of quarters, we’re going to continue to see rents decline, unfortunately, at the same levels, maybe even greater - I don't know - than what we've seen in the second quarter, because that always follows the occupancy declines. And frankly, I think there was a little fear in the market in Q1 and Q2, particularly Q2, as to how long this is going to last. Landlords are dropping their rents and making sure that they solve for occupancies, which is the right thing to do.

And I think you may see the negative rental growth persist for some time, certainly through the balance of this year, to be balanced about it. Hopefully we will see a little bit better uptick more in Q3 and Q4 driven by GDP. We are beginning to see it a little bit now, and we are hopeful that it will begin to moderate the occupancies on the downside. Long answer to your question.

Operator: The next question comes from the line of Sloan Bohlen with Goldman Sachs. Your line is open.

Sloan Bohlen: Good morning, guys. Just a question for Walt and Bill. Walt with your comment that you can expect negative rental growth for a while here, could you reconcile that with where you guys stand on your covenants right now? And then as a related question, for Bill, are those covenants expected to be the same set of covenant requirements for the extended credit facility and, if you could talk to rate? I do not know if it’s too early to talk to rate on the new facility.

Walt Rakowich: Sloan, let me make one comment before Bill's comments on the covenants. I mean, we have sort of run some sensitivity analysis internally and, if you had, let's say 2% or 3% occupancy decline, and let's say you had consistent 15% rental declines for three years, okay? In our portfolio, you're only turning 50% of that portfolio in a three or four-year period of time and call it 67% in a five or six-year period of time. So literally if you had that for three consecutive years, with 3% occupancy declines and 15% per year of all of your rents falling, you'd still only have a about a 10% NOI decline, okay. I mean it takes a long time for NOI to really, really decline to the extent that you are killing your covenants. So, Bill, you may want to comment on that. You got to put that numerically, you got to put things into perspective.

Bill Sullivan: Yes and you might add, Walt, just for full disclosure, when we hit bottom it takes a little bit of time to recapture too.

Walt Rakowich: Yes – good point

Bill Sullivan: But on the global line, I do not want to get into a lot of specifics on the terms and conditions of that because as part of our agreement, until that deal is closed, we won't get into the detailed terms and what not. I think we have already said - I think we talked about it at NAREIT and before - is what we were looking for. The only significant change to the covenant inside the global line is dropping the debt coverage ratio to 1.5 from 1.75 and that is a good thing in this environment.

We've stress-tested our models for future operations against our covenants and feel pretty good. We feel real good relative to what may be a protracted sort of weak environment. So, that's fine.

We've also said, look we're going to have a matrix of – on the debt rate, on the spread on that thing, relative to our bond covenants, or relative to our credit ratings. And at this point, I'd suspect that we fall into somewhere around the 3% to 3.25% over, on the rate via that matrix. One of our focuses over the next 12 to 18 months is to sit down with the rating agencies and continue to hammer on the progress we've made and hopefully get those ratings up.

Operator: Our next question comes from Ki Bin Kim with Macquarie. Your line is open.

Ki Bin Kim: Thank you. Just to follow-up on your leasing comments. As you roll over a 2010 leases, which are probably higher rent leases, what kind of rental mark-to-market can we expect to see?

Walt Rakowich: Chuck, you want to talk about mark-to-market?

Chuck Sullivan: Well, you know Steve, somewhere along the line of Walt's comment with regard to how you roll the rents down earlier in the discussion; we talked about peak to troughs of 10% to 15%. You look at the roll downs and you look at the rents that are in place in 2010 and essentially, they're not substantially higher than the rents that are in place in 2009, if you look at the supp on pages 5.1 and 5.2 in the core and investment management portfolio. So essentially if you roll those rents down by say the current negative rental rate growth of about 12%, you're still looking at only 15% of the entire portfolio in the roll and that it's not going to terribly, significantly impact NOI at that point.

Walt Rakowich: One thing I want to comment on, and I made the comment in my remarks, is that, I would say that market rents are probably in the neighborhood of 25% to 30% below replacement cost rents.

If you take building a new building and take whatever yield you want to slap on it, you're going to find that you simply can't build that building today and make economic sense of it. So, if you believe that there is going to be net demand, longer term, one of two things has to happen. Either replacement costs have to precipitously fall - they may fall but I don't think they're going to fall 30% - or rents are going to have stabilize and at some point in time begin to come back up. The interesting thing is that we're seeing net demand in the market - I shouldn't say that yet, because you still have negative absorption - but we're seeing net demand in terms of companies needing new and more efficient facilities. We are seeing it in Europe. We're seeing in Japan. You saw the build-to-suit press releases that we put out.

And I think to the extent that we see that more and more in the future that will have a stabilizing effect on the rents. Longer term, we think that rent levels, where they are today, are unsustainable.

And so, while everybody wants to mark everything in to market today, the entire portfolio doesn't turn but every seven or eight years. And I just don't think any of us believe that the rents that we've got in place today will all get marked to that number.

Operator: And the next question comes from Michael Bilerman with Citi. Your line is open.

Michael Bilerman: Ted, can you expand a little bit on the development leasing. You guys have done an unbelievable job at really filling the space in the development pipeline since the end of the last year and reducing that risk. Can you talk a little about the type of leasing that you are doing there and how that impacted what your expectation is for your stabilized yield? If you look in your supplemental in Appendix A Page 6, you are targeting about $78 million, it looks like, on a quarter so call it and over $300 million a year in terms of NOI - if I'm reading it correctly - which translates to just south of an eight yield. So I'm just trying to piece everything together in terms of how you are leasing that development, how much capital you are putting in, the term of those leases and whether there is major differences between that and what you are doing in the core?

Ted Antenucci: Michael, I don't think there are major differences between what we're doing on the development pipeline and the core. On the core, we've got renewals and typically, on renewals, sometimes you don't end up having to be quite as competitive in the rent. You don't typically go as low because there is motivation on both parties. In that case, where the customer doesn't necessarily want to move and there are costs associated with they're moving, you strike a little bit better balance in terms of rent.

On the development portfolio, we are focused on leasing it up. We are trying to get ahead of it. I think in general if you take a look at everything we've done as a company, we're trying to get ahead of things. We got a big wakeup call at the end of last year, and we have acted diligently on all fronts to get ahead of the curve. So, we have been aggressive on leasing. That's certainly means our yields are less than what we had originally anticipated but still acceptable. Our yields, we anticipate, will certainly be south of eight on the remaining development pipeline.

The pace of leasing, we hope to maintain, but at some point, you get toward the end of leasing those particular properties and you'll end up with smaller units that are more specific to a given size. I mean I think the pace that we're going at right now is a good solid pace. We hope to maintain it for a few more quarters and then at the very tail end, it might slow down a little bit.

We're making good progress. We are really pleased with what transpired in the second quarter. Our people are doing a great job around the world and they are definitely focused and motivated on getting space leased.

Operator: Our next question comes from Steve Sakwa with ISI Group, your line is open.

Steve Sakwa: Good morning. Just wanted to ask a question about the land. If you look between March and June, your land balance actually went up, which seems to go somewhat in contradiction to the monetization policy. So, can you maybe just explain why the balances went up and how you see that land balance trending over the next couple of years?

Bill Sullivan: Yes, Steve, let me address that. The land balance went up about $182 million quarter-over-quarter. About $82 million of that was FX. So there was call it $100 million of actual net investment activity and that had a lot of ins and outs. About $56 million of that $100 related to pre-committed parcels that were under contract. We had talked about that early on the year and said we had some of that coming down.

We had about $18 million that was in the form of other assets and deposits. Once we completed the final acquisition of the land, it had to move to the land bank itself, prior to starting the building. Then there was about $30 million of infrastructure costs again that were pre-committed.

As we look forward, we are hopeful that there's maybe a little bit left to spend in terms of some pre-committed land, but we are not buying land to build up the land bank. At this point everything that we have spent so far was sort of committed contractually. And actually, we eliminated a fair amount of that, but we couldn't eliminate the whole thing. And so of the $182 million about

$100 was actual net increase - that pace will not be seen again - and about $82 was FX.

Operator: Our next question comes from the line of Jamie Feldman with Bank of America/Merrill Lynch. Your line is open.

Jamie Feldman: Thank you very much and good morning. I was hoping you could provide a little bit more color on your discussions with your fund partners. As the panic has subsided, how are they thinking about their liquidity needs toward the end of the year?

Walt Rakowich: Well, you know, Jamie, every single fund is different, obviously. As you know, some of the funds, particularly the open-ended funds that we've got right now in Europe, we still have equity. As Bill mentioned, at the end of the year, we think we will have 650 million Euro of equity left and we will likely use, certainly a piece of that will be used, to pay down debt. It is all available to pay down debt. We also have about a little over $200 million in the U.S. open-ended funds, which could be used to pay down debt.

In all of those discussions with those open-fund partners and the advisory council, I would say that pretty much people are on board, if there is excess cash, to use it to pay down debt and then try to use it opportunistically if we can. It is interesting. I think that the conversations, if we would have had the same conversations in the third and fourth quarter of last year, people would have been a little more skittish. But I think people now are of the opinion that they want to take a long-term view in this whole thing, and they are willing to use some cash to pay down debt and make sure that the fund is in a strong position.

And I would say that the conversations that we are having with the funds where there are single investors, generally speaking, it is the same thing. To the extent that there is a debt maturity, we feel like we've got to balance it out a little bit and put a little bit more equity into it. We have had pretty successful conversations with those fund partners as well. Every one is little bit different.

That said, the majority of the funds are actually in very good shape today, but people are of the mindset of let's think about it long term; let's not overreact; let's pay down some debt; and let's move forward. I'd say in general, that has been sort of the underlying tone of our conversations that we have had with the investors.

Operator: Our next question comes from the line of Ross Nussbaum with UBS. Your line is open.

Ross Nussbaum: Hi good morning everyone. A question on the global line. With respect to the $2.1 to $2.3 billion of commitments you are ultimately expecting, how many banks ultimately decided not to participate versus how many actually reduced their prior commitments? And can you give us a sense of what the fees are on the new line, as well as the fees that are getting paid on the PEPR extension and how those are being accounted for?

Bill Sullivan: Well, Ross I can't get into the details on the fees and what not because that is all part of our agreement that until the deal closes, we don't talk about the specific terms.

The only significant bank that chose not to participate was yours. UBS was the only bank of size that chose not to participate in the line. We obviously lost some of the Chinese banks but that was sort of expected in that process.

We actually have two major new banks coming into the line, both at $100 million or north. So, we are very, very pleased with where this ended up.

Operator: Our next question comes from David Fick with Stifel Nicolaus. Your line is open.

David Fick: Good morning. A two part balance sheet-related question - did the North American asset sale close and is that reflected in the balance sheet at quarter end? And what do we then do with NOI going forward, as it relates to those asset sales - what's the right run rate? And the second part of the question is, given the fund contribution 10% implied loss that Ted discussed, what are we to think about the balance of the portfolio, both inside the funds and on the balance sheet, in terms of value ramifications?

Bill Sullivan: Well, first of all the asset sale that we disclosed did in fact close. So, those are reflected in the balance sheet. If you sort of want to think about the run rate, David, and I know you guys will start doing a lot of math and what not, we disclosed that overall, those sales took place at about an 8.9% effective cap rate. So, if you look at the asset sales and want to take that type of return off of what would be about a two-thirds run rate for the quarter that would probably be one way to look at it. The other side of that is that we also had a fair amount of lease-up, particularly in May and June and you're seeing very little impact from that and so you got to sort of add that in.

You know, I would I hate to say it but I'd probably wait a quarter or two and watch things settle down to gets you pure run rate. But that's the way I'd start thinking about that. What was the second half of that?

Walt Rakowich: Operator, can you allow David to repeat the second question, because I didn't really understand it.

Operator: Sure. It will be one moment, please.

Walt Rakowich: Okay, Dave, could you repeat that for us? Please.

Operator: It'll be just a moment, I'm sorry.

Walt Rakowich: Okay.

Bill Sullivan: Hey, David, while I wait for to you get back on, if you sort of look at the income from Disc Ops on Page 2.2 that'll give you sort of a run rate for the disposed assets.

Operator: And Mr. Fick’s line is reopened.

Walt Rakowich: David, go ahead.

David Fick: Thank you. The question related to the implied 10% after the discount on the asset sales in to funds. What are we to make of that with respect to valuing the balance of your portfolio and the fund portfolio?

Bill Sullivan: The cap rates, particularly in Europe and a little bit in Mexico, have risen. We are, I guess, more focused this year on liquidity and achieving the targets that we laid out for that. We talked in recent months about the fact that we’d be prepared, call it up to a 9% cap rate or thereabouts, to take the loss if it so came about when we contribute the assets. I don't think that any of us feel that things are going to settle down here or there in that respect quickly. And so, I'm not sure it has an overall implication for the portfolio worldwide. Ted, I know you want to something.

Ted Antenucci: Yes, David. We spent a lot of time actually preparing for value questions and there is really two ways to look at the value. Well, there's probably more than two, but two as we are looking at it. One is the short-term. What's the value today? What's the value of these assets over time? We're not in any sort of liquidation mode and therefore the value today as a point in time is probably not the point in time that I'd pick to try and monetize a whole lot of assets. I mean we're doing what we need to do and so, far we feel really good about what we've monetized and the value we have monetized them.

At this point, contributing buildings in Europe at a 10% to 15% discount to cost with a look-back at the end of 2010 to that value, where we get upside to the extent the value is higher at the end of 2010 then what we contributed it at, makes sense to us. Especially, when we are recycling the capital and we get another bite at the apple on value. But if you pick this point in time, there is a decent subset of assets, at least in Europe, that you can look at and say, yes, the percentage of our pipeline that's in Europe, if you had to contribute it all right now, that's probably a fair way of looking at it.

Certainly, I think we would say that a similar type of discount applies to North America. In Asia, we continue to do really well. In Asia, leasing is solid. We are not seeing rental declines, of any substance. In fact for the most part, we are meeting our performance in Asia. Cap rates have moved a little bit, but I don't think at this point any of us anticipate that there would be losses in Asia if we were to contribute them properties to a fund.

Operator: And our next question comes from Brendan Maiorana with Wells Fargo.

Brendan Maiorana: Hi, good morning. The question is, if I look at the level of cash flow that your assets generate compared to your overall level of debt, it seems to me to bring that ratio in line with some of your peers, would require not only leasing up the development pipeline, where you have made good progress, but also extracting value from the land bank, whether it be through asset sales or somehow generating a return on the land bank. I was just wondering, how you think about the timing of generating some type of return from the land bank or selling that down when you talked about some initiatives that you have done thus far, but just wondering how we should think about the timing of extracting value on the land bank?

Ted Antenucci: Brendan, this is Ted. I will start with an answer and Walt or Bill might add on. Our current major focus has been related to our balance sheet and the leasing of our development portfolio. We've made great progress on those two things. We are starting to, at least I am and a few others, to turn our focus to monetizing the land bank. We have announced a couple of build-to-suit deals and those are with the intent of monetizing some land. We've got some land sales that we are negotiating as we speak.

It is not a robust land market right now, but it’s interesting. If you have got parcels in multiple markets throughout the world, at any given point in time, somebody somewhere is going to need land for some purpose. Sometimes it’s a municipality wanting it for something. Sometimes it’s a user who needs it for a particular use or they have a specific requirement relative to a building or a location. Because we are in a so many markets throughout the world, we are seeing some of those opportunities. We are trying to position ourselves to capitalize on them.

This year we are hopeful that we can monetize approximately $200 million worth of land through either development - all of those developments for the most part are pre-committed takeouts at a pre-committed pricing, so we’re not taking cap rate risk - or through land sales and we think that pace will accelerate.

We are in one of the toughest markets any of us have experienced and to be able to have those types of opportunities, we feel really good about it. So, I would anticipate that next year we would be able to monetize quite a bit more and the following year more and so on and so forth.

So we're looking at our land bank as a five-year monetization plan or not - maybe three years maybe six years - but somewhere in that time frame. And we are working hard toward monetizing it and I think you will start seeing progress on that as you've seen in leasing and some of the other things that we focused on.

Walt Rakowich: And Brendan, just on the pipeline and I don't know if you even asked this but our goal is that at the end of the year the development pipeline that is completed and will be completed 60% to 70% and by the end of next year some place in the 90% type range. So that's our goal there. So that is a much shorter timeframe. Operator, we could take two more calls.

Operator: Okay the next question comes from...

Walt Rakowich: I mean two questions, excuse me.

Operator: The next question comes from Michael Mueller with JPMorgan, your line is open.

Michael Mueller: Hi, a follow-up question to one of the prior questions. If we're looking at asset sales, I think you're talking about outside of the China and Japan fund interest sales, of $1.5 to $1.7 billion. Can you give us a sense as to what you are thinking about in terms of how that could pencil out as you move toward 2010?

Bill Sullivan: Michael, at this point we've identified the sort of level of asset sales that we expect to complete this year - asset sales and contributions. We've got about another $600 million or so worth of contributions and asset sales with probably, call it, $450 million of that being contributions and $150 being asset sales. But post-2009, there is no specific target or game plan on incremental asset sales beyond that and so, we'll look at. Again, one of the things that we will look at relative to the balance sheet, et cetera, is what levers are available to continue to focus on debt maturities, debt pay down, et cetera, but at this point, we sort of like the NOI.

Ted Antenucci: And in addition, Michael, we are fortunate and that we do have our funds committed to taking us out of our development pipeline until the middle of 2010. So, at the end of this year, we'll take a look at it and we will see what makes sense and set goals. We do have that opportunity there both in Mexico and in Europe.

Operator: The next question comes from Cedrik Lachance with Green Street Advisors, your line is open.

Cedrik Lachance: Thanks. Two quick balance sheet questions, I guess. The first one is, have you been able to, or have you looked into tapping the unsecured bond market of late? The other one is in regards to the continuous equity-offering program that you announced a couple of months ago. Just wondering how much equity has been raised from that and what's your plan going forward?

Bill Sullivan: Okay let me touch on both of those, Cedrik. Since the unsecured market really opened up back in call it late March or early April, for REITs, we are looking at it every day for all intents and purposes. Our CDS has come in tremendously in the last three months. If you ask me, had we chosen to tap it in late March or early April, we probably would have done a 10-year deal at somewhere around 12.5% and today it might be under 10%. Our CDS came in this morning about 25 bps. So, we are looking at it. We're evaluating it. We're particularly looking at should we tap it, in what maturities, et cetera, et cetera. It's one of those opportunities that we have to extend maturities and refinance some debt and I suspect we'll take advantage of it hopefully at some point, later this year and into 2010 and beyond. But right now, I think we've gained so far the benefit of having waited a bit.

In terms of the continuous equity offering, we haven't utilized that program so far this year. And that again is one of those things what we will look at from time to time, whether it makes sense to tap that and utilize that. That's one more lever, or arrow in our quiver, in terms of the deleveraging strategy. But at this point in time - and we've had it in place for many years, that's why we re-instituted it following its sort of maturity in March - we'll take a look at that, as the time goes on.

Walt Rakowich: Okay. Thanks, Cedrik. And thank you, everybody for being on the call. We appreciate it. And we look forward to bringing you more results in this upcoming quarter and next quarterly call. Thanks, everybody, again.

Operator: Thank you for participating in today's ProLogis Second Quarter 2009 Financial Results conference call. This conference call will be available for replay beginning today at 1:00 PM Eastern Standard Time through 11:59 PM Eastern Standard Time on Thursday, August 6, 2009.

To access this replay you may dial 1-800-642-1687 in the United States, or area code 706-645-9291 internationally. The replay pass code is 16022761. Again, that replay pass code is 16022761. Thank you. You may now disconnect.

END