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Moderator: Melissa Marsden
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9:00 am CT

Operator: Good morning, my name is Whitney and I will be your conference facilitator today. At this time I would like to welcome everyone to the ProLogis Third Quarter 2009 Financial Results conference call.

Today's call is being recorded. All lines are currently in on a listen only mode to prevent any background noise. After the speakers presentation there will be a question and answer session.

Please press star 1 at that time. The questions will be taking in 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 Whitney, good morning everyone and welcome to our third quarter 2009 conference call. By now you should all have received an email with the link to our supplemental, but if not, the documents are available on our website at prologis.com under Investor Relations.

This morning, we will hear from Walt Rakowich, CEO, to comment on progress relative to current initiatives and the overall environment and then Bill Sullivan, CFO, will cover results, guidance and refinancing activity. Additionally, we are joined today by Ted Antenucci, President and Chief Investment Officer; Chuck Sullivan, Head of Global Operations; and Gary Anderson, Head of Global Investment Management.

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 expectations. 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 SEC filings.

I would also like to add that our third 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: Sure. Thanks Melissa and good morning everyone. Today, I'm going to cover some of the trends and opportunities that we’re seeing in the industrial market. But first, I would like to take a moment to reflect on the actions that we’ve taken to stabilize the company and position ourselves for future growth.

It’s been about a year since we presented our plan to investors in New York. What a difference a year makes. Looking back over the last 12 months, we acted quickly and decisively through a series of sequential steps, each of which enhance the execution of the next.

In the aggregate, we completed more than $3.8 billion of asset sales and contributions. We raised almost $1.5 billion of equity, tapped the unsecured and secured debt markets to refinance debt and bought back over $1.4 billion of bonds at a $320 million discount. With these actions, we reduced direct debt by more than $3 billion and substantially funded the remainder of our development portfolio. At the same time, we refinanced and extended over $2.2 billion of fund-related debt, cut G&A by over 1/3 and brought our development portfolio leasing to nearly 62%.

And during the quarter, we completed two of the remaining major items on our list. We successfully amended and extended our global line of credit and completed our bondholder consent solicitation. The list goes on, and I won't belabor the point any further. Those of you who have been following us understand what was at stake, and what it took to get it done. ProLogis associates around the globe have worked diligently through arguably the most difficult conditions on record, to improve our financial condition and maintain high levels of leasing. I'm incredibly proud of what we, as a team have accomplished.

But now, it’s time to move forward. Looking ahead, we see a global market that’s beginning to show signs of stability. Perhaps growth and expansion will come sooner than we thought. We'll see. However, we will remain highly focused on three things, continued lease-up of our development portfolio and monetization of our land bank, further staggering and extending our debt maturities and addressing property fund issues as appropriate.

And Bill will have more on the last two of these priorities shortly; so, let me address market conditions and development opportunities.

Globally, industrial demand is still soft, but we are seeing signs of increased customer activity. We recently polled our top customers and not surprisingly, about 2/3 of those who we spoke with expect a more positive outlook on their business by sometime in 2010, although many of them felt that it may not occur until later in the year. Importantly, several of them mentioned supply chain reconfiguration, which sometimes means expansion and sometimes simply a search of greater efficiencies. Either way, it's good for us because there's likely to be movement into higher quality, well-located and in many cases, newly built facilities and that's our business.

Market indicators are also looking better. Occupancy declines are slowing globally and activity levels appear to be picking up. In fact, ProLogis's core occupancies trended up by 20 basis points in Q3, as our overall leasing activity was up 13% from the second quarter.

Net absorption was barely negative throughout North America in Q3 and is actually positive in most continental European markets, and we continue to see virtually no new development starts in planning. We're also seeing signs of declining cap rates. Yields have declined by 75 basis points in the UK, with anecdotal evidence of them declining another 50 basis points on deals not yet closed. We've also seen a recent 50 to 100 basis points decline in cap rates on our assets dispositions in the U.S. There is capital on the sidelines and we're seeing evidence of this in the number of solicited offers and unsolicited increase we're now receiving. I never thought I would say this in 2009, but it seems like there are more buyers then sellers in the market right now.

Market rents are still of course lower than a year ago, and we expect this to remain the case for the foreseeable future. Our rents on leases turning were down 14.7% in Q3, versus down 12.6% in the second quarter; however, we believe this situation will reverse itself when market occupancies trend upward. And, as we mentioned in our second quarter call, rental rates today make no sense relative to replacement cost values and will certainly need to rise substantially to justify new developments spurred by any growth in the global economy. Remember, most markets did not get substantially overbuilt in this downturn and there is no new supply on the horizon.

As a result, we’re clearly seeing an increase in request for build-to-suit proposals. Last quarter, we discussed our modified structure for future development that requires less of our capital and helps us to generate returns from currently unproductive land. On that call, we mentioned two transactions we had signed, and during the quarter, we announced two more. One is a 616,000 square foot facility in Osaka for a major Japanese distribution company and repeat customer. We’re developing this facility within a joint venture on a five-acre parcel land that we contributed. We'll continue to own and manage the property, receiving asset and property management fees and our portion of rental income. In addition, we have a repurchase option within three years of completion and have retained the flexibility to transfer the property into any new fund we may form in the future.

We also announced a 503,000 square foot distribution facility for a leading UK retailer, who currently occupies more than 300,000 square feet with us in the West Midlands. We'll construct the facility on a 32-acre parcel of our land, subject to planning consent, and we have an agreement to sell the facility upon construction completion to a Canadian life insurance company. Through land sales and preleased developments, we have begun so far this year to monetize over $120 million of land year-to-date.

At the same time, we remain highly focused on reducing the unleased portion of our completed developments. During the quarter, we increased the leased percentage in our static 12/31/2008 development portfolio to 61.7%, up substantially from 54.1% in the second quarter and 41.4% at the beginning of the year. As a result, we’ve already reached the low-end of our 60% to 70% year-end goal for leasing in this portfolio.

During the quarter, we also announced that we formed a global renewable energy group to procure new business and manage installations for renewable energy projects around the globe for us, our fund partners and our customers. In addition, we announced a 4.8-megawatt solar project to be installed on eight rooftops at ProLogis parks in Barcelona and Madrid. Upon completion of this project, we'll have more than 11 megawatts of solar installations on roughly 2% of our roof space in the US, Japan, France, Germany and Spain. This is an opportunity to leverage off our existing assets, to do something good for the environment, and to create long-term value for our shareholders.

In summary, our work to stabilize the company is substantially complete and we have shifted our focus to positioning for long-term growth. And while we anticipate there will be pressure on rents for the foreseeable future, we're cautiously optimistic about market fundamentals overall and the opportunities we see to convert non-income producing assets into cash flow for our shareholders. And now let me turn it over to Bill.

Bill Sullivan: Thanks Walt. I would like to cover three topics today. First is Q3 results and guidance for the remainder of the year. Second is recent initiatives and the third is progress on financing activities related to our property funds.

We generated FFO, excluding significant non-cash items, of $0.21 per share in Q3. The significant non-cash items totaled $29.3 million, or $0.07 per share and consisted of roughly $17 million to the upside from gains on early repayment of debt and $46 million to the downside from impairments of properties. Additionally, we incurred $11.6 million, or $0.03 per share in non-recurring charges associated with the write-down of certain corporate assets, as well as costs associated with the company's G&A reduction program.

Unfortunately, the noise associated with gain on early extinguishment of debt, impairments and changing share counts will continue throughout the year making it challenging to present core results. However, let me give it a try. On a year-to-date basis, we have generated $405 million of FFO, excluding significant non-cash items. The non-recurring charges incurred through September total $56 million, resulting in core FFO for the first nine months of approximately $461 million. Based on our expected weighted average share count for 2009 of 409 million shares, this represents $1.14 per share relative to our earlier full-year 2009 guidance of $1.31 to $1.48 per share, which we now have narrowed to $1.39 to $1.43 per share.

In terms of future guidance, there are a few items to note. First is the successful execution of our at-the-market equity offering program, through which we generated $325 million of net proceeds during the third quarter at an average price of $11.15 per share. In total, we issued 29.8 million shares, bringing our outstanding shares to approximately 473 million at September 30. The issuance increased our expected full-year weighted average shares outstanding for 2009 to approximately 405 million from the previous guidance of 398 million shares.

The second point relative to guidance, relates to our targeted property sales and contributions of $1.5 to $1.7 billion, of which approximately $1.2 billion has been completed so far. We continue on track to achieve this guidance, based on planned fourth quarter contributions to PEP II, NAIF as well as remaining asset sales.

Third, we will incur additional one-time charges in Q4 related to our restructuring activities inclusive of fees and other expenses associated with our recent Bond Consent Solicitation process. Additionally, we will be planning for 2010 and monitoring the markets to determine if additional impairments are warranted or required.

Finally, relative to 2010, as noted in our press release, we’re not yet ready to provide guidance. We appear to be nearing an inflection point in many markets and at this point want to monitor activity levels to be more confident in the direction things are heading before committing to specific targets. We will provide detailed 2010 guidance in January.

Turning to recent initiatives, we have very nearly reached the culmination of the plan we laid out last November. In August, we amended our global senior credit facility and obtained $2.25 billion of extended commitments through August 2012. Also in August, we issued $350 million in unsecured bonds.

In September, we launched a bond consent solicitation which closed on October 1. As a result of this effort, we obtained the consents necessary to amend the covenants under previous indentures to make them consistent with that of the August 2009 bond offering. One of our stated objectives has been to simplify and improve our financial flexibility and transparency, and this consent is a further step in that direction.

Additionally, throughout August and September, we raised the $325 million of equity, which I discussed briefly before. Importantly, during the period that we issued shares under this program, PLD's stock price was up 40.4%, versus a range of 12-1/2% to 51.2% for our peer group. We believe this was a prudent use of the program to bolster our balance sheet and provide liquidity that will allow us to take advantage of some of the opportunities that are emerging from our renewed build-to-suit activities, as well as within our fund business.

As I think about what has been accomplished in the last year, a fair number of our activities and transaction executions were interdependent and occurred in a targeted linear fashion. We wouldn't have been as successful in raising equity, if we hadn't first significantly reduced debt through the Asia sale. And, we would had a harder time extending the line of credit if we had not demonstrated that we could raise equity and complete the large portion of the targeted asset sales and contributions. All of which led to our credit spreads tightening and providing access to the unsecured debt market, which then provided us the framework with which to pursue the bond consent solicitation.

So, while the last 12 months have been a long and winding road, we're glad to report we have nearly come to the end of our stabilization endeavors. However, we still have work to do and we will continue to focus on leveling out and extending debt maturities. We have reduced our overall balance sheet debt by over $3 billion, since September of 2008, focusing principally on debt maturities in 2009, '10 and '11. As for direct debt, due in 2012 and '13, we plan to continue to access the capital markets opportunistically and our target is to fully address these maturities by mid-year 2011.

Finally, let me discuss our activities and progress, relative to debt maturities inside our funds. At this point, 2009 has been fully addressed and we are focused on the 2010 fund debt maturities of nearly $2.5 billion down from $3.1 billion at June 30.

As I did last quarter, I will address the remaining 2010 maturities in three buckets. In bucket number one, at September 30, we had approximately $576 million of debt in five separate U.S. funds that mature in 2010. We have already closed on a $56 million refinancing inside PCAL. We intend to call capital from the NAIF investors in Q4 to fully pay off the $184 million outstanding under the revolver. We're in active discussions on each of the loans representing the remaining $336 million of 2010 maturities. One or more of these may require a modest incremental investment from both us and our fund partners. But at this point, we do not anticipate this to be a material amount.

In bucket number two, we have approximately €557 million outstanding under our PEP II bank line, which matures in May 2010. We completed four separate financings during the quarter, totaling €288 million and currently we have four financing packages in various stages, totaling €323 million, all of which we're hopeful of closing by year-end 2009. We have additional refinancing packages in earlier stages, totaling nearly €156 million, which more than likely will not close until Q1 2010. Given the financing activity either closed or underway; we intend to pay off the bank line by its original maturity date through our refinancing program or through drawing down on the remaining unfunded equity commitments in PEP II.

Finally, in bucket number three, we have approximately €750 million of debt in PEPR that matures in 2010, down from approximately €1.05 billion at June 30. The €750 million outstanding at September 30 comprises approximately €450 million of CMBS debt that matures in May 2010 and €300 million under the PEPR bank line that matures in December 2010. We entered Q4 with €50 million cash on hand. We closed on a €48 million financing in early October, and we have six financing packages active in various stages, totaling approximately €630 million. The majority, if not all of which, are currently targeted for 2009 closings.

Since the beginning of 2008, we have completed over 40 financing transactions within our funds, totaling over $6 billion, including 15 financing transactions this year, totaling more than $1.8 billion. As I have said many times in the past, we have great treasury and asset services groups which do this for a living. We will continue to finance and refinance well north of $1 billion on an annual basis due to the nature of the funds, and at this point, we have proven our ability to do so both in good times and bad.

In closing, we have accomplished an incredible amount from a debt reduction, refinancing and liquidity standpoint in the last year. We do not intend to slow down, particularly in light of the opportunities that we see ahead. Now, let me turn it back to Walt to wrap up.

Walt Rakowich: Thanks Bill. Before we open it up for questions, let me just leave you with three final points. First, we’re immensely pleased that we’ve completed the actions that we identified to stabilize the company in, really, a little less than a year. We were highly motivated to act quickly and I think that we did.

Second, we are not done. As we shift our emphasis from the stabilization stage, we are keenly aware that market conditions are likely to remain challenging for the foreseeable future. We will remain highly focused on maintaining strong occupancies and identifying opportunities to monetize our land.

And third, we believe the actions we are taking today are positioning us to take advantage of opportunities tomorrow when the time's right. We know that we have to be focused on earnings and cash flow growth. We certainly have and will be but make no mistake about it, our long-term focus will be growth in NAV. We will stay focused on this objective, even if it means sacrificing short-term earnings to accomplish it. Operator, we're prepared 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 star then 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 your first question comes from Steve Sakwa with ISI Group.

Steve Sakwa: Good morning. Bill, can you maybe talk about your targeted leverage ratio. You've obviously done a lot, but as you think about the possibility of continuing to issue equity, how should we think about where you want the balance sheet to be versus where it is today?

Bill Sullivan: Steve, let me reiterate some of what we've talked about in the past, which we have been focused on for awhile. We want to get back to that BBB+ rating. Right now we got the split rating at effectively BBB and BBB-. We want to get debt to a reasonable level. It is there today from a book basis, but there is disconnect today between book and NAV. So I think that there are opportunities, and we're seeing it already in terms of stabilizing, if not declining, cap rates that will improve our NAV and bring it closer to book. So, in the near-term - being in the next 18 months or so - I would love to see that debt ratio get down into the low- to mid-50s range versus what is perceived on a NAV basis today to be 60% plus.

As importantly, we want to focus on monetizing the land and leasing up the pipeline, because the other key measure is our interest coverage ratio, which we want to get well-north of two times and get back to that BBB+ rating.

Walt Rakowich: And Steve, this is Walt. I'm going to just add a little bit more teeth to what Bill was saying. Our stated objective really has been to bring down the debt, but we want to do it over time and do it in a rational way. We see doing it through a number of different things. Obviously, we did do the CEO program this quarter, but I think longer term we're focused on asset sales. We'll be focused on increasing the value of our land from an NAV perspective, in terms of the way the market thinks about it. We'll be focused on increasing the value of our non-income producing assets, meaning primarily our development through leasing. And frankly, what we're beginning to see is a settling out, as Bill said, or a more reasonable valuations to our assets with some cap rate declines and, I think we're going to see some rental increases overtime.

So, we will do it in a rational way, long-term. We will get there by blocking and tackling and doing the right things from an operational perspective.

Operator: Your next question comes from Sloan Bohlen with Goldman Sachs.

Sloan Bohlen: Yes, good morning. Maybe a question for Ted; on the leasing and the development pipeline. It still looks like you're well ahead of schedule for the 2010 stabilization. Could you give us just a little bit of color on the rates that you're seeing and whether you're still in that targeted 7% to 8% yield range? And also, if you could touch on lease term as well, thanks?

Ted Antenucci: Thanks Sloan. Yes, I think we're still in that 7% to 8% target range. We're a little surprised and pleased with the amount of activity there is in the market in general. It's certainly not robust, but it's better than we had expected. We feel like we're getting more than our market share, based on being aggressive, having good quality product and having good customer relations.

Lease terms, we're trying to keep to five years or less. That's not always the case, but we view this downturn in rent as something relatively short term, and we don't want to commit to longer-term leases right now. I think I hit all the points.

Walt Rakowich: Yes, I would also add, Sloan, I think we clearly are still leasing the development pipeline at less than what we pro formaed a year ago, given where market rents are today. But instead, if you can keep it somewhat short-term, and I think our average lease term right now is in the neighborhood of 39 to 40 months, the situation will reverse itself. We're pretty confident that will happen and ultimately we'll be able to capture that upside over time.

Ted Antenucci: And I'd like to add, we have stated we will continue to be aggressive in getting our occupancy levels up. It is interesting to note in the top 31 markets that we track almost 1/3 of them have had an increase in occupancy, which, with no new supply coming online, is giving us some level of comfort and stabilizing of the occupancy.

And as we see occupancy levels increase, we will certainly push rents, but we're not at that point yet. We do see that out there on the horizon, where we didn't last quarter. So, I think there has been definitely a positive turn over the last three months.

Operator: Your next question comes from Ki Bin Kim with Macquarie.

Ki Bin Kim: Thank you good morning. In regards to the 15% rent roll downs this quarter, if you could break that down between lease renewals and new leases, and if you have any expectations going forward?

Ted Antenucci: Ki Bin, this is Ted. I will answer at least part of the question and then Chuck can get the balance. We looked at the roll down, and there were 436 transactions that took place, and interestingly enough, if you take three of those transactions out of the equation - two of which were short-term deals, one was two months, one was six months - the negative rent growth went from 14.69% to 12.19%, which was commensurate with last quarter. So, it's interesting that one or two short-term deals generally impacted the number. The one other deal that wasn't short-term was in Dallas, and it is relatively large building. Dallas is a very aggressive market right now for a large space, and we met the market on that deal.

But overall, when you pull those three out, we feel like there is a level of stabilization in the downward pressure on rents. Also, with those three out of there, it compares to last quarter. So the quarters were pretty much on top of each other in terms of negative rent growth.

Chuck Sullivan: And Ki Bin, the second part of your question was with regard to renewals and, specifically, if you just look at renewals versus new transactions you're looking at somewhat of say 1/2 of that in terms of negative rent roll down. So for example, if you're looking at a 12% or 13% negative rent growth on the aggregate portfolio, the percentage on renewals might be, say 6% to 7% negative rent growth.

Operator: Our next question comes from Michael Bilerman with Citi.

Michael Bilerman: Good morning. Bill, I am wondering if you could spend time talking about your capital contributions into the funds. Last quarter, you obviously had the NAIF II restructuring and putting in $85 million of cash. You also, when you've been contributing some assets, have been taking back equity interests and effectively have been having some cash contributions. I think in some of your prepared commentary, you talked about a little bit of debt coming due and maybe having to put in some new equity. So I'm just wondering how much of that do you think is going to occur going forward in terms of both your assets that you're contemplating selling for the rest of the year and in terms of the funds how much cash are you taking back and are you just taking back equity, and then how much more capital do you think you're going to need to inject into the funds when the debt comes due?

Bill Sullivan: Michael let me try to touch on just a couple of the points that we sort of highlighted today. If you think about what we talked about in my remarks, we're planning on calling capital in NAIF. We have a 20% ownership interest in NAIF. And so, if we call say $180 million of capital, that's about $36 million from our perspective, and we're prepared to do that. Inside PEP II, we talked about, to the extent that one or more of financing transactions that we've got underway were to fall out of bed or get delayed, that we would be prepared to call capital for that. But I'd put that sort of at the outside, maybe €50 to €100 million of capital in total and we would probably contribute 20% of that. But, having said that, we have a lot of activity going in Europe and I view that as sort of the last resort from that perspective. So I'm highlighting it but not, but hopefully, not expecting it.

Inside PEPR, we've talked about - and PEPR had their conference call earlier today - we've talked about a variety of initiatives we have going on in PEPR. One of which will be to raise some equity, we hope, inside PEPR in a rights offering of sorts. We're targeting a couple of different things. We have to sit down with the Board of PEPR later next week and talk through all the various alternatives. I could see us committing anywhere from - we would be willing to underwrite the first tranche of an offering - which would be about €60 million. We would intend to offer that on a pari passu basis, which we think would be an attractive instrument. So again, our piece of that maybe 25%, so call it €15 million, but we would gladly be prepared to underwrite the whole thing.

So, it is pieces here and there, but I would say you're probably looking at something on the order of $100 million to $200 million all in, and we have substantial liquidity inside the company today. And candidly these opportunities – we view them as opportunities to de-lever and to increase NAV – are the reason we raised the equity that we did.

Operator: Your next question comes from Jamie Feldman with Bank of America.

Jamie Feldman: Thank you very much. Walt, I was hoping you could elaborate a little bit more on your discussions with your tenants, just in terms of if they think business is improving in 2010, or if they were to do more supply chain redesign, what the timing would be and when. And then also, what markets do you think when we come out of this cycle, we'll see a different footprint for supply chains globally?

Walt Rakowich: Okay. I will start and then I'll probably turn it over to Chuck on this, Jamie. I think if you had to characterize the discussions that we have had in general, I would say that they were cautiously optimistic. But I say cautiously because none of us know at this point in time if this is going to be a head fake, candidly. I mean I think it's moving in the right direction. We certainly feel good about occupancies. We've seen two quarters of either stabilization or increased for us market occupancies - the declines have slowed down. So it's maybe a head fake, I don't think so but it maybe, and so that's why our customers are looking at it as quote/unquote cautiously optimistic.

When we talked to a majority of them, they're saying, expansion 2010, maybe late but 2010. That means expansion in their business, which may or may not translate into expansion in their distribution needs, but it's a kind of a precursor we think. So that's good news. The interesting thing was the amount of reconfiguration discussion there was. You know, it's really interesting, you see that in good times and bad times, but you see an acceleration in bad times, typically because people are looking to save costs. One of the first things they look at is their logistics system. How they can save on transportation costs mainly. Those discussions are really, really good for us. Because when you own Class A buildings - almost inevitably this reconfiguration either means new development or a movement into a building that is state-of-the-art, Class A that can be more efficient and typically is well located relative to what they have - so that all really good for us.

What market? I don't know. I would say our focus really has been on markets with very, very strong GDP and where we think GDP will grow. And I think that bodes well for the very, very large markets where there's huge population and ultimately people need to serve that population. That said, let me turn it over to Chuck.

Chuck Sullivan: Yes, Jamie, I will add a little color to that. With regard to how they're actually approaching their supply chain, they're still looking at kind of a last mile, if you will, which has historically been the most high-cost part of their supply chain. So with regard to how they're reconfiguring, our customers are telling us that they want to get closer to their end customer. Back to Walt's comment regarding large population centers and GDP, that doesn't necessarily change their overall supply chain but it might reconfigure it within those large population centers.

Operator: Your next question comes from Mark Biffert with Oppenheimer.

Mark Biffert: Hi, good morning. Walt, I was wondering if you could expand upon your comments on the cap rate compression you're seeing. Obviously, some of that's probably related to the debt spreads coming in. I am just wondering in terms of the contributions that you are making to the funds, how has that impacted the pricing on those. And, given the incremental spread that you put on top of that when you submit it, does that entail that you might have some gains next year once that is marked-to-market in the fourth quarter?

Walt Rakowich: Okay let me - that's a great question Mark and let me kind of kick that off and I'm going to ask Ted also comment. It's really interesting. If we would have had this conference call 45 days ago, and maybe even as much as little as 30 days ago, I am not sure that we would have had seen as much cap rate compression. We certainly would have said some, but I would not have made the comment of 50 to a 100 basis points in the U.S. So, it is moving very rapidly. There are situations that we're seeing where literally we are seeing as many as, 50 in one case, and a 100 confidentiality agreements in another. We literally had signed that many on a project that we put out to bid. So, when you have that many confi's signed, you're going to get better pricing.

I don't think we would have had that many confi's signed six months or even three months ago. So it's moving rapidly. That said, the appraisals on our contributions into our funds are lagging. They just are. And, fortunate maybe for us, they lagged while cap rates were rising and unfortunate for us they're lagging as cap rates are now compressing. And so, the point is that I don't think we've seen that pricing yet manifests itself into our contributions. Having said that let me turn it over to Ted and maybe Ted can give a little bit more color.

Ted Antenucci: Yes Mark; We're fascinated by what's going on with the movement in cap rates over a very short period of time, or what appears to be happening. And we're seeing buyers on some of the projects that we're trying to sell, there are, you know, private REITs, we have actually seen some public REITs activity, we're seeing pension fund activity. It's kind of across the board.

And Walt was referring to a project and I will be a little bit more specific. It's a retail project that was a Catellus project that we are trying to sell. We put it on the market back in September/October of last year and by the time it got to a point where we were able to get offers, we got none. In February, there was literally no one interested in buying - it's a brand-new, fully leased project in a great location. We were told to get any interest, we needed to be at 11 cap rate or greater, so we chose not to pursue it. We're now in a situation where we've got 100 confidentiality agreements signed. Today, they are getting offers. We know of 13 offers, we're getting at cap rates substantially below 11 - actually below 9. So, it's really moved very quickly.

In Europe, where we are contributing properties, we do feel that the look back that will occur at the end of 2010 will create some level of proceeds for us. It's hard to quantify the discount that we've given the fund, but we feel it's been fair and appropriate. It looks like cap rates are coming back to a point where, if we were to re-evaluate it at what we assume values would be at the end of the year, or certainly at the end of 2010, there will be some level of catch up.

Operator: Your next question comes from Ross Nussbaum with UBS.

Ross Nussbaum: Hi good morning everyone. Bill, can you talk a little bit about; A) what was the FX impact on third quarter earnings given the weak dollar? And then B) with respect to the development pipeline, am I right in looking at, there was $12.5 million of gains on developments included in FFO, did that relate to the $174 million of properties that were contributed into the funds. What do you expect going forward given all the cap rate commentary I have just heard? If you're building to seven to eight, is there any chance that we're going to see continued gains on contributions in FFO?

Bill Sullivan: Well, let me address the second part first, which is the gains of the $12 million. It came in four or five or six different buckets. Some of it was from land that we sold in Q3. We are marketing a host of properties and including land, and believe it or not, we do have land that has gains associated with it. So, probably 25% of it was land associated.

There was a small gain on the contribution but that was coming off of written-down values on the European contribution. There was a gain associated with our NA 2 Fund and the reconciliation of the investment we made earlier in the quarter as well.

And so it was a smattering of things in the gain category. I think we'll have some modest gains from time to time in the foreseeable future, based upon contribution and/or land sale activities, but we may also see some impairment on that. So, it's sort of too soon to tell on that aspect.

As it relates to the FX, I don't think the FX had a particularly big impact on the Q3 results. Largely because the FFO from Europe is to a large extent shielded from the debt that we borrow in Euros and the same is true in the Japanese Yen. Now, given the world equation at this point, we may take a different tack on that in the future. We see a softening US dollar and some of the discussion and debate that we have going on internally is preparing for what we believe may be a soft US dollar for the foreseeable future. In that case, we may choose to undo some of the natural hedges that we have on the Euro and/or the Yen.

Operator: Your next question comes from Chris Caton with Morgan Stanley.

Chris Canton: Hi good morning. Regarding the property management fees, I noticed that it picked up quite a bit. I think about $14 million. Wondering what's driving that, if you expect it to be sustainable and how it might trend going forward?

Bill Sullivan: Well, embedded in the $0.21 a share was a decent-sized chunk in the fees associated with the conclusion of the asset management and property management agreements for the Japan funds. That was offset by substantial non-recurring charges as well. And so, I would look at it on the upside on the non-recurring charges and about I think $12 or $13 million of non-recurring quarterly property management/asset management fees. But that was the result of the ultimate cancellation of the Japan fund.

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

Brendan Maiorana: Thanks, good morning. Question on the land bank and the development pipeline – Walt and Bill, you both mentioned that realizing increased value from your land is one of the keys to getting your leverage metrics in line with your longer-term targets. Relative to the 7% to 8% yield that you're currently getting on your development pipeline, I have to assume that if you're putting that land into motion, you're expecting to get a yield that's significantly above that level. Can you give us a sense of where you'd be comfortable putting land into motion from a return expectation, and once the markets return to normal, how much do you think in development starts that you can do on a normalized basis annually?

Walt Rakowich: That's a loaded question. Let me throw out, Brendan, some anecdotal information, which I don't want you to take and apply it to the entire $2.7 billion of land. The interesting thing is that we did announce four build-to-suits in the last quarter. Two were in Japan and two were in Europe. We are working on some others right now. The interesting thing is that the land that we've put into those deals, generally - and then I'll talk Japan - let's talk about Europe. Generally, the yields on our full basis of land were somewhere in the 8.25% to 8.5% range. We were able to take those buildings and either contribute them into the - or I should say have that pre-commitment to contribute them at our cost to the European fund or in the case of the other building, we were actually selling it to a Canadian life insurance company and basically at our basis and included in our basis is a development fee. Okay.

Now the two developments that we're doing in Japan, we're also putting our land in at development costs, excuse me, at full value. We're getting a very, very high return on that expected capital in a joint venture type format, where there is roughly 50% leverage. We're getting a 10% plus return on our equity, pari passu with our partners, plus some fees. So we feel good about the yields that we've done.

Having said that can we assume that we can put the entire $2.7 billion into developments? If we were to do it all today, I would say that some of that land is clearly going to be impaired and some of it is not. It just depends. So I think a more reasonable expectation overtime, unless we see value increases, would be that perhaps we would get a 4% to 5% return on that $2.7 billion of land at today's value. And if values are increasing, hopefully we can get a higher yield overtime. That is not going to happen in one year that's going to happen over the course of next call it two to three years or so.

And so as it relates to properties that were already developed and completed, you're right for the most part, we're getting a 7% type yield, potentially a little bit more, potentially a little bit less, depending on the exact building. Ted, you want to add to that?

Ted Antenucci: Yes, Brendan, the 7% to 8% yields are using our land at book for the most part. The market today isn't in the 7% to 8% range. I mean if someone were to build a new building it would be, in most markets, everywhere pretty much outside of Japan, likely in the 9 to 10 range, if someone isn't compelled because they own the land. Because we own some of this land, we're compelled to monetize it and therefore it would be more aggressive, but I think that today a new development deal is probably more like 9 to 10, not 7 to 8.

In terms of the size of what we can do from a development standpoint, I think we feel -- and there's balance sheet related issues -- there's a lot of things that we're looking at. It's amazing to me that we are looking at how much development can we do in the markets, both from our own standpoint and what market demand will be, but we think it's somewhere between $500 million a $1 billion. It's kind of a reasonable number for us to be looking at on a go-forward basis. And that, I think, we would feel like could be the next 12 to 24-month timeframe and beyond that, who knows.

Bill Sullivan Right and I would just add to that, as we've said in the past, we have focused a lot of time and attention on reducing our G&A, but we believe from an infrastructure standpoint, we've left ourselves with the infrastructure ability to probably have $1 billion to $1.5 billion of development starts on an annual basis.

Operator: Your next question comes from David Fick with Stifel Nicolaus.

David Fick: Just following up on that last question, you've commented a lot on the things firming both from a cap rate and a space demand perspective. PPR just put out a piece that looked at major market vacancies having spiked on large properties, over 1/2 million square feet, to above 19% from below 8% just a few years ago. I am wondering what your forward view is given the context of many years of supply and almost all the major US markets already on the ground. Do you really expect to see cap rates stay where they are or won't there be a lot of assets coming to the market due to distressed sellers with close to 20% vacancy out there? That is number one and number two is don't you expect to see a commensurate pressure on rents from here given that we're still seeing increases in vacancy?

Ted Antenucci: Well, David, this is Ted. Our statistics don't show a 20% vacancy, in fact it's substantially less than that. I think we're looking at the overall market and you're looking at I guess buildings over a certain size range the majority of which are certainly divisible. So I don't know that I would necessarily focus on a certain subset. I do think there are subsets of assets and I actually referenced to one earlier - Dallas right now, bigger buildings it's a very challenging market - but that's not necessarily across the board. The amount of activity that we have on our land is surprising to all of us. We're in enough markets that there are pockets of opportunity. We're being approached by customers to help meet their demand in those markets, with those pockets of opportunity. It's not robust but it's out there.

In terms of rents continuing to decline, we're seeing at this point occupancies seem to be kind of stabilizing and flat. Rents have come down quite a bit. I think there will be isolated situations, where people will get very competitive on rents, but there is no new supply coming on the market. And I think that gives us a lot of comfort that there is a bottom to the rental decline and that we feel like we're getting close to that. Again, in terms of values and cap rates and distressed sellers, we're just not seeing the distressed sellers in industrial at this point in time. There are a few properties that we're aware of that are vacant, non-income producing, in challenging submarkets that you can buy below construction costs – substantially below - but they are very few and far between.

The majority of the income-producing assets that are on the market have a lot of activity and there really hasn't been a buyer in the market in the last year. We're now hearing about with the stock market coming back up, people's allocations towards real estate - they're under allocated to real estate. We're seeing a substantial number of buyers and not a lot of sellers. It's surprising to us and we're holding our breath a little bit. But right now, the imbalance is there are more buyers out there than there are sellers for properties that have income.

And lastly, what we see people doing in their underwriting is taking whatever the face rate rent is on the deal and assuming that there might be a dip in rents from now until five years from now when the lease matures, but effectively pro forma-ing when that lease matures that rates are going to be flat or up. So what you're seeing is that people are putting cap rates on in-place rent, even if they are above current market, in anticipation that by the time that lease rolls, that will be market or market will be greater than that due to the fact that there is no new supply. So, we're just not seeing huge distress in leased assets.

Walt Rakowich: And David, I think you raised a really good question, and I would like to answer it too by saying this. Right now, we believe - and we're tracking the bulk industrial markets. I don't remember if PPR breaks it out - we think in the top 30 markets that vacancy is roughly 10.3%. So let's say it's 89.7% occupied. We think frictional occupancy is somewhere in the neighborhood of 92% to 93%. The high watermark over 25-year period of time for all the 30 markets, we think, is somewhere in the neighborhood of 92.5%. So, let's say for every percent - there's about 6 billion square feet - for every percent you're talking about 60 million square feet, okay. There is no new supply and I don't think there will be much new supply next year.

Now we think the third quarter - in the bulk space only - there was about negative 3 million square feet in terms of absorption and that's reversing itself very quickly. In the height of the market, 2006/2007, the market was absorbing 150 million square feet, i.e. 2.5% to 3% per year, but there was also development of 2.5% to 3%, call it 2% to 3%, per year to make up for that. So, literally, if you got back to a situation where you absorbed 50 million or 60 million square feet per year, you could suck up that vacant space in a very, very quick period of time. Without much supply, you wouldn't have to get to a quote/unquote frictional number of 92.5%, you could get to 91, 91.5, 92 and you'd begin to see rents really moving up at that point.

That's why, I do think this thing can reserve itself and, as Ted said, be careful on the 500,000 square feet and up because the fact of the matter is probably 80% to 90% of those buildings can be divided, and they will. We could stretch out on one more question, operator.

Operator: Okay. Your last question comes from Michael Mueller with JPMorgan.

Michael Mueller: Yes hi. Bill, I know you said you were going to talk about the drivers of 2010 on the next call, but can you give us some sort of sense? When we look at the dispositions/contributions this year, ex China and Japan, it was somewhere in the vicinity of a $1.5 billion. At this point, it seems like it should be lower going forward, given what you've done so far in the equity side and the debt side and just any comments on that?

Bill Sullivan: Well, again, Michael, we are in the planning stage on 2010. We are looking at the spectrum of things that we want to accomplish in 2010, and candidly, we haven't finalized our thought process on how much we will contribute to the funds. We'll still have, as we go into 2010, a fair amount of undrawn capacity in PEP II, somewhere north of €600 million, as well as a couple $100 million in the Mexico fund, et cetera, and we're going to be working on new funds. And so, I think we will have a fair amount of capital to either pursue contributions or acquisitions inside the funds.

In terms of asset sales, one of the things that we'll focus on, and we've talked about in the past, is we want a larger, wholly-owned portfolio in both Europe and Japan relative to what has largely been a US portfolio to this point. So to the extent that we see acquisition opportunities or build-to-suit opportunities or other investment opportunities, you may find us selling some of the US assets and redeploying that capital into those opportunities.

Beyond, that I don't want to avoid the question and I'm not trying to avoid the question, it's just that is all very fluid right now. We're going to take advantage of opportunities as we see them come to the forefront.

Walt Rakowich: Okay, thank you, everybody. And we certainly look forward to seeing most of you in one way, shape or form at NAREIT, and we'll talk to you next quarter. Thank you.

Operator: Thank you for participating in today's ProLogis Third Quarter 2009 Financial Results conference call. This conference will be available for replay beginning at 1 o'clock pm Eastern Standard Time to 11:59 pm Eastern Standard Time on Thursday, November 5, 2009.

To access this replay you may dial 1-800-642-1687 in the United States area, or 706-645-9291 internationally. The replay passcode is 30070632. Again, that replay passcode is 30070632. Thank you. You may now disconnect.

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