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Moderator: Melissa Marsden
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Operator: Good morning. My name is Christopher and I will be your conference facilitator today. I would like to welcome everyone to the ProLogis fourth quarter 2009 year-end 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-one 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, Christopher. Good morning everyone and welcome to our fourth quarter year-end 2009 conference call. By now, you should all have received an email with a link to our supplemental as well as our business drivers. But if not, the documents are available on our website at prologis.com under Investor Relations.

This morning we'll hear from Walt Rakowich, CEO, to comment on the market environment, and then Bill Sullivan, CFO, will cover results and guidance. 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 prepared remarks, I'd like to state that this conference call will contain forward-looking statements under federal security 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 guaranteed to 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'd also like to add that our fourth quarter results press release and supplemental do contain financial measures such as FFO and EBITDA that are non-GAAP measures. And in accordance with Reg G, we have provided a reconciliation to those measures.

And as we've done in the past, to allow 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, will you please begin?

Walter Rakowich: Sure. Thanks, Melissa and good morning, everyone. Today, I'm going to talk about what we're currently seeing in our markets, our outlook for fundamentals throughout 2010 and how we plan to reposition our asset base in the future. Bill will have more on our financial results and guidance for 2010 in a moment.

As we enter 2010, we are cautiously optimistic. On the one hand, markets are improving and the dynamics in the business point to better days ahead. On the other hand, we're acutely aware of the macro environment; the tremendous capacity still left in the economy, unemployment continuing to plague us in many areas of the world and rising government debt with no near-term solution. These are problems that will not go away soon, and we are continuously assessing their potential impact on our business. However, with that as a backdrop, let's talk about what we are seeing in our industry.

In our 3rd quarter conference call, we noted that our global markets were beginning to show some signs of stability. In Q4, we saw continuation of this trend. For the first time in five quarters, we saw positive net demand of just over 3 msf in the top 31 North American markets. In Europe, we saw a similar trend in our markets with positive net demand of 3.5 msf. Delivery still outpaced net demand in the US, resulting in a slight drop in occupancies, but that trend should reverse itself in Q1 or Q2 of this year as new deliveries will slow to a trickle. In Europe, occupancies were flat from Q3 to Q4. Overall, market rents are still soft, and of course, they will be until occupancies rise. However, they too are stabilizing as leasing volumes pick up. It's interesting to note that ProLogis' overall leasing volume was up 9.4% in Q4 over Q3.

Now, there are three things we are seeing in the markets today that point to a potentially better environment: first, a complete lack of new supply; second, rising construction costs; and third, higher expected rates of return. Those three characteristics are inconsistent with the soft rental environment that we see today. And of course, without an increase in demand, these factors are less relevant. With net new demand, they could have a significant impact.

So let me explain. As a general statement, since 2007, market rents declined by roughly 20% globally, while cap rates rose by about 20 to 25%. Under those conditions, there should not be a substantial amount of new development unless buildings could be built for 40% or so less than they could two years ago. Of course, that hasn't happened; so new supply is virtually nonexistent. Consider that the starts in the top North American markets that we track totaled only 12 msf in 2009 and almost all of it was build-to-suit. The lowest level of starts in the last 25 years was about 50 msf in 1992 – so 2009 starts were about 75% below the lowest level seen in 25 years! In addition, even with leasing volumes improving, we expect 2010 will have a similarly low level of supply because current lease rates just don't pencil vis-à-vis costs and return expectations.

So what about construction costs? Well, they are lower since contractors are out of work and land prices are down. Last year, we could build in most areas of the world for about 20% below 2007 prices. But a 20% drop in cost cannot make up for a 20% drop in rent and a 20 to 25% change in expected yields. The current environment is changing. Emerging markets are heating up again, so costs are on the rise. Steel is up 15% since October. Asphalt is up substantially with oil now at $75 a barrel. Only concrete is expected to remain flat this year. Overall, we expect a 5 to 7% increase in hard costs in most areas of the world in 2010.

Now, some believe the market is far too oversupplied with good product already, with a long way to go before conditions are tight enough to require new facilities. Perhaps, but that depends on your view on how quickly demand picks up. In our product type, this real estate downturn was demand and capital-driven, not supply-driven. And while net demand contracted in 2009, there was still positive absorption in new state-of-the-art facilities at the expense of second generation buildings. This is particularly true in Europe and Japan where functional obsolescence is a bigger driver of demand.

In the US, net absorption and growth in industrial space has historically had a direct correlation to real GDP growth. It's a very simplistic analysis, but for every 1% increase in real US GDP, we believe there is a need for additional 50 msf of space. Estimates for 2010 real GDP growth ranged from 2 to 3%. If this is achieved, it will go a long way towards bringing occupancies in line with historical averages. Add to that annual obsolescence and ongoing supply chain reconfiguration and we could have a dramatically different occupancy picture in 12 to 24 months, aided in large part by the complete lack of new supply.

So what does this all mean for us? Well, at a minimum, it argues for continued stability. Down the road, it potentially argues for new development and thus rising rental rates and rising values. We'll see. It does depend on demand, but we are finally seeing large blocks of new space being absorbed with still no new supply to fill the void.

In recent weeks, we've signed some of the largest leases done during the last 12 to 18 months in several markets including the UK, Hungary, Tokyo, Las Vegas, Indianapolis and the Inland Empire. In fact, we are working a number of build-to-suit proposals because certain sizes of new space in certain locations are becoming scarce. In the second half of 2009, we signed build-to-suits with a total expected investment of over $336 million because our customers lacked available choices. This year, we expect to double that with about 80% to 90% of this new development occurring in either Asia or Europe.

In addition, many companies are beginning to talk about sustainability again. The number of companies with environmental agendas is accelerating. Just two weeks ago, the SEC mandated that companies begin disclosing the impact of climate change on their businesses. It's clear that environmental stewardship is not a fad. We believe, particularly as the economy recovers, it will continue to drive the need for new efficient facilities and accelerate the obsolescence of older ones.

As for institutional demand, investors have definitely increased their appetite for industrial product and are beginning to talk of real estate as an inflation hedge. Since last summer, average prices for industrial real estate have risen by about 10% because there are more buyers than sellers. There is a sense now that prices-per-square-foot are as cheap as they're going to get; that customer demand will soon increase; and cash flows will have to rise down the road as a result.

So given this increase in institutional demand and lack of product on the market, we will look to strategically reposition our direct-owned asset base over the next few years through leverage-neutral capital recycling. While our cash flow from operations covers maintenance CapEx and dividends, we plan to fund our capital needs through selective, third-party sales of second generation and non-core product that we own in the US. We will also continue to make some contributions to our property funds. We plan to recycle the proceeds into the new, primarily build-to-suit development that we intend to hold on our balance sheet.

This approach will allow us to achieve three objectives; first, retain more of our development, thereby decreasing the age of our wholly owned asset pool; second, improve the geographic diversification of our wholly owned asset pool, as most of our planned developments are in international markets; and third, monetize our land bank more quickly as we respond to RFPs without regard to third-party takeouts.

In summary, we remain cautious on the macro environment but are encouraged by early signs of fundamental improvement in our business. Customer demand is picking up. Asset pricing has improved. Our work to stabilize our balance sheet is substantially complete, and we're now shifting our focus to positioning ourselves to take advantage of the opportunities that we see on the horizon. While 2010 will still be a tough year from an earnings perspective, we believe there is significant potential for us to enhance cash flow, improve portfolio diversification, and create long-term value for our shareholders. And now, let me turn it over to Bill.

Bill Sullivan: Thanks, Walt. As I have said before, 2009 was an extremely complicated and challenging year as it relates to reporting our results. However, we expect 2010 to be substantially cleaner and we hope to simplify things for our investor audience. With that as a precursor, I would like to cover three topics today.

First is our 2009 results relative to our previous guidance with particular emphasis on Q4.
Second, I will review our 2010 guidance and the underlying key assumptions.
And third, I will briefly touch on our balance sheet and fund debt positioning.

For the full year 2009, we generated FFO, excluding significant non-cash items, of $1.15 per share. Adding back $0.26 in one-time, or non-recurring costs, as outlined in our press release, resulted in FFO, excluding non-cash items and non-recurring costs of $1.41 for the year, at the mid-point of our previous guidance of $1.39 to $1.43.

Let me dive a little deeper into Q4'09 to give you a perspective on both the magnitude and type of adjustments made, as well as to better outline the earnings potential for the company. In Q4'09, we generated $0.23 per share in FFO, excluding significant non-cash items and non-recurring charges. I will talk more about those adjustments in a minute. First, let me shed some light on the nature of the $0.23 per share. That number includes roughly $0.08 in gains on disposition of real estate properties, all of which represent gains off of original gross book basis. Removing the gains would provide a core Q4 FFO of roughly $0.15, or $0.60 on an annualized basis.

Before I walk through how this translates to 2010 performance, let me address the non-cash and nonrecurring charge adjustments made in Q4. As noted on page 1.4 of the supplemental, during the quarter, we recorded approximately $369 million, or $0.78 per share, in impairments and other non-cash charges. The principal components of these adjustments were:

- $136 million on land that we have targeted for sale in 2010 and beyond. These impairments represent approximately a 30% reduction from an original book basis of $438 million;
- $54 million on retail properties and ground leases acquired as part of the Catellus merger targeted for sale or redevelopment in 2010;
- $115 million related to a write-down on our investments in a retail joint venture in Europe, which principally holds land positions in the U.K. and CEE; and,
- $28 million representing our investment in two of our Eaton Vance Funds.

On the “non-recurring” charge front, we incurred just over $45 million. or $0.10 per share, in charges in Q4 that we consider as non-recurring, the principal components of which were;

- $14.5 million in legal tax and investment banking fees related to our bond consent solicitation, which was completed in October;
- $20 million associated with a trueup of indemnities we have provided to several of our funds. Liabilities were set up for these obligations, but due to the current leasing environment, we revisited the original releasing assumptions and adjusted accordingly;
- $13 million was related to settlement costs associated with an obligation assumed in the Catellus merger agreement; and,
- finally, there were a small number of other items that added approximately $2 million to FFO on a net basis that we considered as not repeatable.

Now turning to 2010 guidance, we expect 2010 FFO to be in a range of $0.74 to $0.78 per share, with approximately $0.10 of that from gains on dispositions or contributions and $0.64 to $0.68 from core operations. Earnings per share are expected to be $0.25 to $0.29.

As we discussed and displayed in our November NAREIT presentation and subsequent investor conference presentation, we believe we have substantial upside FFO potential from the development portfolio and land assets currently on our balance sheet, however, realization of that upside will occur over the next two to four years. Offsetting a portion of this upside is higher net interest expense based on lower capitalized interest, the effect of which occurs virtually immediately. Therefore, in relating our 2010 guidance back to our Q4’09 annualized core FFO run rate of $0.60 per share;

- The run rate FFO will increase as a result of more of a full-year effect of the development portfolio lease-up accomplished in 2009 as well as incremental lease up-of our development portfolio in 2010. Additionally, we expect larger development management fees to result from our renewable energy group as well as an increased focus on construction management activities for third parties.
- These increases in 2010 will be offset to a degree as we expect to see a continued decrease in same-store NOI based on lease rollovers in the current

environment, as well as a decrease in capitalized interest costs associated with the completion of our existing development portfolio.

- Finally, as I will talk about a minute, we expect new development activity to pick up as 2010 progresses and to fund this activity through disposition of assets off our balance sheet. In order to mitigate risk associated with that development activity, it is likely that we will be selling assets slightly ahead of the income generation from the development activity which is dilutive to FFO in 2010.

In looking at the approximately $0.10 per share we expect in gains for 2010, roughly 40% of that is expected from our Japan operations; 25% is related to an expectation of recapture from 2009 contributions into PEPF II and the remainder is associated with a variety of targeted building, land, and ground lease sales. Contrary to popular opinion and as we have said in the past, we believe gains from our development activity will be a recurring source of FFO and will grow over time.

Earlier today, we released a document that outlines the business drivers that support our 2010 guidance; the more significant of which I will quickly review for those who don't have that summary readily available.

- From a leasing standpoint, we expect to see a 1.5 to 2.5% increase in overall leasing percentage within the total portfolio; i.e., the core development and investment management portfolios on a combined basis.
- For the core portfolio, month-to-month and expiring leases represent 15.3 % of annualized base rent. We anticipate effective rents on turnovers to be down 10 to 12% and average retention of 65 to 70%.
- In our investment management business month-to-month on expiring leases represent 13% of annualized base rent with expected rents on turnovers down a similar 10 to 12% in retention of 70 to 75%.
- Same store NOI, which we report in the aggregate for both direct and fund properties, is expected to decrease by 1.5 to 3%, reflecting the continued negative rent growth.
- We anticipate starting $700 to $800 million of new development. This development combined with land sales is expected to monetize approximately $350 to $400 million of land.
- We expect contributions and dispositions of land, core portfolio assets, and development portfolio assets to total $1.3 to $1.5 billion for the year. Roughly

60% of this amount is related to planned dispositions or contributions of US assets with the remainder divided roughly equally between Europe and Asia.

- On the expense side, gross G&A is expected to be down roughly 7%, with total capitalized G&A in amounts reported as rental and investment management expenses in line with 2009 levels.
- Gross interest expense is expected to be roughly flat for 2009 with net interest expense increasing by 10 to 12% principally as a result of a lower level of capitalized interest.

With these drivers in mind, there are two questions that I would have if were in your shoes. The first is, are you done with impairments and other adjustments? And the second is, how could 2010 look better or worse?

The answer to the question on whether we will have further impairments is – maybe – but we do not believe they would be anywhere near the degree that we saw in 2008 and 2009. Our primary focus continues to be on growing NAV and establishing of framework for long-term FFO growth. In that vein, we will seek to monetize land assets through outright sale as quickly and prudently possible and will sell and contribute additional assets to third parties and funds, none of which are currently targeted to be at losses in 2010. However, depending on valuations and circumstances, we **may** incur incremental impairments or losses.

The answer to the second question will evolve over the course of the year. In simple form, we could see accretion to our guidance FFO from improved economic conditions, quicker than expected lease-up of our development portfolio, and a weakening dollar. We could see dilution to our FFO guidance from weaker than expected economic conditions, sooner rather than later debt refinancing activities or a strengthening dollar.

Finally, turning to our financing activities. On the balance sheet, we far surpassed our goal of reducing direct debt by $2 billion by the end of 2009. Our year-end direct debt balance of roughly $7.9 billion represents a total decrease of $2.7 billion from December 2008. Overall debt increased by about $275 million, compared with where we ended Q3, however, overall liabilities remained essentially flat. We used a portion of the October bond issuance to payoff approximately $190 million to the IRS related to the Catellus tax audit; we also made investments of $49 million related to our share of the North American Industrial Fund capital call through which the fund prepaid debt at a substantial discount; and, invested $59 million in PEPR related to the purchase of convertible preferred units, which yield 10.5 %.

Our 2010 and 2011 balance sheet debt maturities are relatively modest; $233 million and $190 million respectively as a result of our focus in 2009. As I noted in our Q3 call, the next hurdle is related to 2012 and 2013 direct debt maturities, and this is not lost on us. But as we stated then, we are evaluating alternatives. We have proven access to the capital markets and intend to address the vast majority of those maturities no later than mid-2011.

Turning to fund debt, we had a very busy fourth quarter 2009, reducing our 2010 fund debt maturities from $2.5 billion at September 30 to $1.6 billion as of December 31. It has been an equally busy beginning to 2010, as we have closed on multiple financings in the last 30 days and the 2010 fund debt maturities have been reduced to approximately $775 million since the beginning of the year. We have a specific action planned on each of these pieces of debt, the vast majority of which will be refinanced or paid off by June 30. In short, our fund debt profile is much like that of our direct debt. We have substantially addressed 2010 maturities and have relatively modest 2011 maturities.

To wrap up, we see 2010 as a year to establish a baseline for core operations, upon which we can and will grow. We are less focused on FFO in 2010 than we are on creating value and setting ourselves up to take advantage of opportunities to grow the business long term in a prudent matter.

Now, let me turn it back to Walt.

Walt Rakowich: Thank you, Bill. And before I open it up for Q&A, let me leave you with three short and final thoughts.

- First, we accomplished a lot in 2009 and most of what we set out to do is now substantially complete.
- Second, last year, we were in a crisis mode, reacting to dire market conditions; this year, we're thinking proactively about repositioning our asset base, improving our operations, growing our development business again, and increasing assets under management. Our people are energized with early evidence of improving market conditions and better days ahead.

- And third, we have substantial upside in our earnings over the next three to four years from simply monetizing our non-income producing assets – and that will happen – but don't forget about our platform: people in 18 countries, customers with us in multiple markets and capital sources throughout the globe. It's extensive, it's deep, and it is still there. And let me tell you, that platform represents a powerful engine for additional growth in the years ahead.

Operator, we can open it up for Q&A.

Operator: Our question and answer session will be conducted electronically. If you would like to ask a question off our speakers, please press the star key followed by the digit one on your touch-tone telephone. Once again, please limit yourself to one question at a time.

Your first question comes from the line of James Feldman with Bank of America.

James Feldman: Thank you. Bill, I was hoping you could talk us through what your 2010 guidance would mean in terms of AFFO and what the major drivers would be to get from one to the other?

Bill Sullivan: Well, AFFO, I know people have what I view as a defined term and people look at it slightly differently. But in essence, what we look at is the FFO – this is the way we think about the dividend as well as growing our operations - we add back to FFO the cap interest and the cap G&A. We subtract out the straight-line rents. We subtract out the difference, or add to the difference, the differential between the distributions we get from our funds and the FFO we generate from our funds. Then we look at that as compared to CapEx, the current dividend and the preferred dividend. From our 2010 view of that measure, we exceed our dividend and CapEx requirements. We put that cap G&A and cap interest down in our development costs, as we view that as part of our funding for our development activities.

Walt Rakowich: And Jamie, along those same lines, as Bill said, if you didn't develop $700 to $800 million or, last year $336 million, whatever the number is, you wouldn't have those people. You just wouldn't. And you would have that interest expense. So that's the way we think about it. The other thing I'd say is if you look at $2 billion of development still – actually it's $1.7 billion – but in addition to that, we've got those buildings that were leased last year where we still don't have cash flow and that will be trickling in this year and into next year.

Then you got $2.5 billion of land that we will monetize over time. We think there is tremendous upside in that AFFO. So candidly, while we think it's about at the dividend at this point, slightly above it, we're not concerned about where the dividend is. And if anything, hopefully over time, there will be very nice upside in that dividend.

Operator: Our next question comes from the line of Michael Bilerman with Citigroup.

Michael Bilerman: Yes, good morning. Walt, maybe you can talk about this portfolio repositioning that you've outlined in terms of selling or contributing $1.3 billion to $1.5 billion of assets; and obviously, that includes some of the land that you are doing. Thinking about that predominantly… you have a lot of probably the older assets that you want to liquidate or contribute in and what you are reinvesting in Europe and Asian assets that are probably at lower yields. I would expect that those activities, putting the land aside for a second, would be considerably dilutive to earnings. While it goes towards improving the core portfolio and, I guess, your geography, it may come at a considerable cost.

Walt Rakowich: Michael, I'm really glad you asked that question. I probably should have put something in the prepared remarks because I think it's spot on. Interestingly enough – and I'm going to ask Ted to comment alongside me with this – but what we're seeing in build-to-suit yields right now is somewhere between 8.5 and 9 % and as low as 8. But most of the deals we're looking at are 8.5 and 9 and one deal we did last year was closer to 10. And that, by the way, is without land at a 100 % basis, okay?

What we are seeing on the ability to sell second-generation assets into the market, depending on how well-leased they are obviously, where they are and the like – because they could be a wide dispersion - we are thinking that those cap rates will be anywhere from the low 8s to potentially, depending on how old the assets are, to the high 8s and maybe even the low 9s, okay? So it really depends on the blend. We're thinking about it as more of an even trade than anything else at this point. And in fact, if you consider that the land is already on our balance sheet, it is actually accretive from an overall cash flow perspective. So that is the plus.

What Bill was referring to in his comments regarding the dilution is that, assuming we do $700 to $800 million of development this year, we are going to probably pay for roughly, on a half year basis, we will pay for half of it because we wouldn't start it all immediately and you got half of it next year. Well, our view is that we'd like to capitalize those developments now. If we can sell assets in advance of that and be debt neutral – and actually, in fact in the short term, you end up being debt positive because you basically pay down your line in advance of your development costs but that will be dilutive.

The overall stabilization of that development, vis-à-vis the cap rates that we think we can get, will be pretty much a push. Ted, do you want to make any comments along those lines in terms what we are seeing?

Ted Antenucci: The build-to-suit activity has been encouraging. We have had lots of questions on it. We're in over 100 markets, and when you are in over a 100 markets, you're going to see some reasonable number of opportunities. Certainly less today than we saw two years ago, but there's more interest and demand out there than I think most people think and, certainly, than what we anticipated.

Japan, obviously, yields would be less. If we were to match buildings in Japan up with debt, I think our leverage returns would end up kind of blending that out so that it again becomes a relatively neutral trade. The reason it's a neutral trade is we are doing development, and we are getting a higher yield because of the development. If we actually sell and contribute assets in the US and buy assets in Europe or Japan, that would be a more dilutive. We are really encouraged by what we are seeing on the markets and improving the overall quality of our portfolio long-term.

Operator: Our next question comes from the line of Paul Morgan with Morgan Stanley.

Paul Morgan: Good morning. Can you just talk about your leasing strategy and whether it's evolving? Are you very focused on monetizing the vacancy near term or, as you're getting more constructive as you said about demand and in 2010, are you inclined to be somewhat more patient? Also maybe characterize that answer across the different geographies.

Ted Antenucci: Yes, Paul, this is Ted. We continue our focus on occupancy. We're meeting the market. I mean where people – you can call it aggressive, you can call it whatever you want. We're meeting the market, and we're leasing our space. That is our primary goal and our primary focus. As our portfolio gets more occupied, call it 92 to 93 %, we'll certainly take a look at ways to increase rents. We believe that day is coming. There has been no new supply – there is no new supply being brought to the markets. We are encouraged by that dynamic. With GDP growth, we think there will be net new demand overall throughout the world over the next few years, with no new supply coming in line. We're hoping to have the opportunity to push rents as Walt talked about in his remarks. Costs, although they have come down, they have not come down enough to offset what has been a drop in rents – in movement and cap rates.

Clearly, there will be an increase in rents at the point in time when new development starts to take place. We're seeing that in our build-to-suit transactions. We're seeing it in a few other transactions that are going on the market that are build-to-suits; rents on the build-to-suit projects are higher than what you can lease a current vacant building for. It makes sense to us. We think that's going it is going to play out over time.

So in the trends pretty much throughout the world, Japan is still a very strong market for us. All the buildings that we built in Japan, for the most part, are leasing at kind of the pace we anticipated, and we're getting the type of rents that we anticipated. One nice dynamic in Japan is costs are down there. So on newer development deals, we're actually seeing a pick up in yield. And then in the balance of the world, I think it's relatively consistent with that of the US – I mean the US and Europe are relatively in the same boat right now.

Walt Rakowich: Chuck, do you want to add to that?

Chuck Sullivan: Well Paul, there are markets that we have been pleasantly surprised with. One that I would point out would be for example Houston. In Houston, we have maintained above 95% occupancy for the last several quarters. We have other markets that are similar to that and that's bearing out in the fundamentals in those markets. We don't expect rents to turn immediately in those markets, but it is very promising.

Additionally, activity levels globally have improved slightly. It's still a little bit lumpy in various markets. But for the most part, we're starting to see activity, which would translate into hopefully higher occupancies and some potential rent growth, say a couple of quarters from now as opposed to immediately.

Ted Antenucci: And I'm going to add one more thing. In the markets that we track in the US, it's really interesting. In Q4 '08 and if you go quarter-by-quarter in terms of what happened with occupancy level – I'll use vacancy rates – vacancy rates increased in Q4 '08 to Q1 '09, 71 bps; Q1 to Q2, 65 bps; Q2 to Q3, 24 bps; and then Q3 to Q4, 5 bps. If you graph that out, it is clearly leveling out. Again, we think that's because of the lack of new supply in the market and the overall activity level picking up. I think you would see that relatively consistent throughout the world.

Operator: Our next question comes from the line of Sloan Bohlen with Goldman Sachs.

Sloan Bohlen: Hi, good morning, guys. Walt, and probably Bill too, you guys talked about basically being leverage-neutral with regards to sales and development this year. As we look ahead at the debt maturities in '12, particularly with the converts, what do you expect the plan will be towards a leveraged target at some point in the future, and what do you expect to be as sources of how you go about delevering?

Bill Sullivan: Let me take that. We've been pretty consistent in terms of where we are targeting sort of overall leverage. Again, that's a question of how you look at things, whether it's on a book basis or a look through basis; whether it's on any NAV, et cetera; and with NAV, you know, beauty is in eye of the beholder. So from purely from a book basis, we look at it and say we want to be in the low to mid-40s on a straight balance-sheet perspective. Given some of the leverage in a couple of the funds, we look at it on a look-through basis in the 45 to 50% levered basis.

We believe that sort of level would provide us the opportunity ultimately for ratings upgrades, if we can combine that, which we will, with increased FFO off the non-income producing assets today, to hit the interest coverage targets. And so, that's where we're sort of planning things. In terms of how to deal with 2012 and '13 maturities, in the grand scheme of things, we've said we're going to deal with it. We have access to a variety of – I mean virtually every part of the capital market spectrum in the last year, and we intend to do the same in 2010 and 2011. Right now, at least, before everybody sort of went into a blackout, the debt markets were pretty vibrant – the convert markets are pretty vibrant. So, we intend to look at the spectrum of alternatives and pursue those that will give us a good opportunity to extend out debt maturities at the most reasonable cost. Clearly, as we talked about, one of our objectives is to level out our debt maturities in a substantially better fashion than we've dealt with in the past.

And if you look out there right now, we've got a hole in 2017 – so a seven year deal would be sort of right up our alley. We clearly have a hole 10 years out. And, as you know, Simon accessed the 30-year market, so we're looking at everything out there. So hang on and you'll see.

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

Ross Nussbaum: Hi, good morning everyone. The data we looked at for fourth quarter industrial shows that bulk distribution did meaningfully better on the demand front than flex or light manufacturing. Is this a trend that you've seen inside of your portfolio? And if so, how does it relate to the type, kind, size, location of assets that you plan on disposing off this year?

Walt Rakowich: Ross, let me just quickly answer that. First of all, we really don't own flex or much. The only light manufacturing we own, to my knowledge, is in Mexico. So, we really don't own that much. The truth is I have been in business now for, what, 25, 26 years, and I am a big, big believer in bulk industrial. I am not a big believer in flex or light industrial. I just don't like it. It tends to be very heavily built out from a TI perspective. Light industrial tends to be very manufacturing-oriented, which scares the heck out of me in most markets.

So we're big bulk distribution guys. Over the 25 years that I have been in the business, bulk distribution has always done incredibly well vis-à-vis those other two product types because it's just not heavily capital intensive. It tends to be usable to – or I should say flexible to – a lot of different users and that's why we invest in it. And that's why when you read these occupancy numbers or vacancy numbers that are out there, people say, well, the industrial markets are 13 to 14 % vacant. That's a bunch of baloney that isn't in our product type; not for class B or class A product. It's just not. And so that's why we invest in that product type and it has outperformed and it will continue to outperform, we believe, down the road.

Chuck, do you want to add to that?

Chuck Sullivan: I would just echo and say that it's highly utilitarian, more correlated to GDP and less correlated to job loss. The typical light industrial or flex space is also competing in a couple of different arenas; one of those is office. That puts a lot of pressure on that product type that we don't experience.

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

Ki Bin Kim: Thank you. First, I turn to your capital deployment front. Of your guidance for $700 million of new development starts, how much of that have you actually identified in terms of talking or in negotiations with tenants? And, how do those deals compare to perhaps putting new equity into your funds or JVs at depressed NAV prices; i.e. something like PEPR, which is trading at 30 % below pays NAV?

Ted Antenucci: I'm not sure on the PEPR question. Maybe you can repeat that. I will just respond to the $700 million of starts. We've got good, solid activity throughout the world. There's more significant activity in Japan and in Europe than there is in the US right now. For the most part, more than half of the $700 million would be opportunities that we've identified and are pursuing… and feel very comfortable with.

It's interesting to note in the last six months of last year, so the last six months, we did $336 million of development starts or signed agreements that total that amount in starts. So it's not a pace that's unprecedented here. I mean the last six months, we did it. We think that the next 6 to 12 months, things are going to be better than the last six months. So we are comfortable with those numbers. And I'm not sure...

Bill Sullivan: Yes, let me take your question about PEPR. In my mind, it is more of a broader question, which is about putting equity into our funds and investing in those. We've said for the last 12 months that we believe there are opportunities to invest incremental capital into our funds because we know those assets the best. We built most of them, managed all of them and so we've done that. We put money into NAIF 2. We put money into NAIF3. As we talked about on the call here, we put some more money into NAIF in Q4 to buy down debt at a substantial discount. And we invested in PEPR in Q4 at a very nice coupon return on the convertible preferred. So, we do think that our funds represent some opportunities from time-to-time and that's a good thing. Let me turn to Gary just in the grand scheme of things.

Gary Anderson: I think you hit it on the head. I mean, we communicated in Q3 and we communicated it at NAREIT that we do believe that investment into our funds is something that we would pursue. We believe it's a great opportunity at the pricing levels that we were seeing out there today.

Ted Antenucci: In terms of priorities, we're very focused on monetizing our land. The ability to do these build-to-suits and monetize land and to improve the geographic diversity of portfolio is certainly a high priority to us. Fortunately, we are in an environment where there seems to be several different opportunities for us, but very high on the priority list is monetizing land, and we are going to do that through these build-to-suit developments.

Operator: Your next question comes from the line of Michael Mueller with J.P. Morgan.

Michael Mueller: The development pipeline at year end, it looks like it's a little over 64% leased. Can you talk about where you expect that to be at the end of 2010? And also, Bill, going back to the original AFFO question that started off the call, can you just lay out what you think the cap interest and G&A expense will be this year?

Walt Rakowich: Yes, and before we talk about the development pipeline, let me just make one clarification. Mike, I think you're probably familiar with this. The pipeline is 64% leased. We were tracking a static pipeline, which we put out a press release earlier in the quarter, that said 68% leased. Just so everybody understands the difference, remember that we are contributing assets into the European fund that were 100% leased. So, 64 % represents that which we still, if you will, own on our balance sheet 100 % of; the 68% was tracking our overall progress in terms of leasing that original pipeline from a year ago. In any case, looking at the 64%, maybe, Ted, you can kind of give us a sense on where you think we could be?

Ted Antenucci: Yes. Our expectation is somewhere between 80% and 90% leased. Last year, we did extremely well in leasing up our pipeline. We leased approximately 16 msf. We've got about 19 msf to go to get that static pipeline to 100 % occupancy.

Typically, you don’t end up right at 100%, but we certainly expect to end up at 95% over some period of time. We feel very comfortable with a 80% to 90% target. And, again, we're going to continue to be focused on occupancy not only in this particular portfolio, the development portfolio, but our overall portfolio as a company.

Walt Rakowich: Bill, on the capitalized interest?

Bill Sullivan: Yes, the capitalized interest and capitalized G&A, like Jeff Finnin just reminded me, we apparently have never disclosed exactly the capitalized G&A number and so one of the things we're going to do in this 10-K, we're going to disclose our capitalized G&A number. And so wait for the 10-K on that. But, in essence, we anticipate cap G&A to roughly equal to last year's capitalized G&A.

And on the cap interest front, we had about $94 million of capitalized interest last year. We probably expect about two-thirds of that to be capitalized this year.

Operator: Your next question comes from the line of Steven Frankel with Green Street Advisors.

Steven Frankel: Thank you. Can you guys just comment briefly on just how your relationships with fund partners are right now; some colors on funds two and three; and provide some color behind the impairment on the Eaton Vance Funds?

Gary Anderson: Let me start with the relationship and then I'll turn it over to Bill to talk about the impairments. We're talking to invertors continuously about a variety of initiatives. There's no question that this has been an unprecedented time over the course of the last, let's call it, 12 to 24 months. And, investors not only with ProLogis but around the globe who have invested in real estate have lost money. That is a fact.

Where I think ProLogis shines and where we are getting tremendous credit from investors is that we are an operator. We have done a phenomenal job, and we're getting recognized for that in terms of how we've managed these assets through this difficult period both in terms of occupancy and driving NOI; and quite frankly, in terms of how we've managed the debt maturities. We have, within the fund business in 2009, issued and extended over $2.225 billion worth of debt and repaid about $1.9 billion.

So, on that side, I think we've done a real good job and I think we get very high marks. Again, I think investors today are differentiating between strong operators, which ProLogis certainly is one, and between those who are just asset accumulators. And today, they've indicated clearly to us that they want to invest with us today and on a go-forward basis.

Bill Sullivan: Yes, on the Eaton Vance Funds, to get to the second part of your question, back in our NAREIT presentation and other presentations, we talked about the various debt levels inside our funds and identified those Eaton Vance funds as one of three funds that are, in the grand scheme of things, more highly levered than the others – the other two of those being NA II and NA III.

And within Eaton Vance, there are five funds. Our partner asked us to take portfolios of two of those funds out to market. Once we did that, we had to take a look at those and what our expectations were for sales, and look more deeply at "is there an impairment associated with those." So, we took an impairment in Q4 because of that sales activity. In those funds, the debt doesn't come due until 2012, and the funds don't mature until 2014. We believe there are opportunities to create value in some of those over time but, because of that sales activity, we felt it most prudent to look at our own balance sheet and take an impairment on those two of the five funds.

Walt Rakowich: Only NA II and III?

Bill Sullivan: Well, NA II and III, are more highly levered. They were both put in place at the top of the market back in summer of 2007. We have a great relationship, in my opinion, with those partners. Citi is our partner on NA II. We worked through some debt issues and resolutions with Citi late – or early in the summer last year, invested some more capital into NA II, extended the loan for seven years and so we think there's – those assets are great assets.

On the NA III, Lehman is our partner. We probably joked a lot about Lehman a year ago from the standpoint of we couldn't get hold of anybody. Lehman has been a great partner. Together, we both put in money into NA III, paid down a portion of the mezz loan that State Street Bank has. And, again, those funds are cash flowing well with no real near-term debt maturities and so, we feel pretty good about NA III.

Walt Rakowich: Operator, we have time for two more questions.

Operator: Your next question comes from the line of George Auerbach with ISI Group.

George Auerbach: Thanks. Good morning. On page A6 in the supplemental, you show that the incremental NOI from the completed but not yet stabilized in the portfolio is around $50 million, which hasn't changed dramatically from the $56 million figure from two quarters ago. I understand the timing differences between leasing the portfolio up and recognizing cash flow; but why isn't this figure going down more dramatically given the leasing progress made in 2009? And,, second, can you help us understand the timing for realizing that $50 million of cash...

Walt Rakowich: George, I'm sorry, can you tell us – for whatever reason, I can't hear you that well. What page are you referring to again?

George Auerbach: It's A6, just the difference between the pro forma NOI and the stabilized portfolio and what's being recognized today. It just hasn't gone down that much over the last couple quarters. I'm just wondering why that is.

Walt Rakowich: OK. I don't know, Bill, if we need to get back to him and you know...

Bill Sullivan: Yes, let me just ask you, George, are you, are you netting the two numbers – on that – on page A, are you netting the $25 against the $75 million?

George Auerbach: Yes.

Bill Sullivan: All right. Well, that shouldn't happen. The $25, what that schedule is meant to do is show what is the adjusted NOI on our – on our wholly owned direct portfolio including our development portfolio and then subtract out the NOI associated with that - the vast majority of which is our development portfolio. Then look at the development portfolio of what we think the quarterly NOI is at stabilization. And, so you take the $148, you back out of that the $25 that is in large part just associated with the development portfolio to get to the core portfolio of about $123 in quarterly NOI. And then you would add back the $75 which is what we view as the stabilized potential from the development portfolio. So don't net the two. And, if you have other questions, we'd be happy to answer them directly. Just give Melissa a call at the end of this and I will jump on the call as well.

Walt Rakowich: Operator, we have time for one more question.

Operator: Your next question comes from the line of Michael O'Dell with AIG Asset.

Michael O'Dell: Thanks for taking the call. Just a question, I'm looking at your supplemental on page 6.2 and the adjustment for the borrowing limitations. I just wanted some color on exactly what the $1.58 billion related to the uncovered asset pool, how that is calculated? Two, in terms of what exactly the banks are including as secured debt and, in connection with that, the appropriate pledged assets. And then on top of that, just as is it – as I'm looking at the refinancing of the facility to $2.25 billion in October, based on these numbers, you have a shortfall in your facility. Am I looking at that $1.8 billion improperly? Just some color on exactly what that $1.8 billion is. At this point, people are focused on 12 and 13. If my calculations are appropriate based on this $1.8 billion adjustment plus your $800 million outstanding, you have a shortfall on your credit facility.

Bill Sullivan: That is a mouthful.

Walt Rakowich: Unfortunately, Michael, I don't think we have the time to answer all that but Bill you want to...

Bill Sullivan: Let me touch on it, and then we can follow up with you directly if need be. But look, in the big picture, we have a borrowing base limitation that was put in place in the global line of credit. In my opinion, the borrowing base limitation is probably too stringent. We have contacted all of our banks and said we're going to revisit that in short order, within the next 60 days or so.

But what it does is it provides a limitation on the amount you can draw on the line, OK? It's complicated to walk through, but we can do that. So, our current capacity on the line is $1.1 billion as of the end of the year. And, I think that sort of addresses that. And again, walking through the borrowing base, we'd have to spend a lot more time. There was so much more to the questions...

Walt Rakowich: Michael, I think we'll just to get back to you on the details. I think, at this point in time, we need to wrap up the call. We'd like to thank everybody for being on the call and look forward to talking to you next quarter.

Operator?

Operator: Thank you for participating in today's ProLogis fourth quarter 2009 year end financial results conference call. This conference call will be available for replay beginning today at 1 PM Eastern Standard Time through 11:59 PM Eastern Standard Time on Thursday, February 25, 2010. To access this replay, you may dial 1-800-642-1687 domestically or area 706-645-9291 internationally. The replay passcode is 49471953. Again, that replay passcode is 49471953. Thank you. You may now disconnect.

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