ProLogis

Moderator: Melissa Marsden
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Operator: Good morning, my name is Sarah and I'll be your conference facilitator today.

I would like to welcome everyone to the ProLogis third quarter 2010 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 order in which they are received.

Also, please limit yourself to one question at a time. At this time, I'd like to turn the conference over to Ms. Melissa Marsden, managing director of investor relations and corporate communications with Prologis. Please go ahead ma'am.

Melissa Marsden: Thank you Sarah. Good morning everyone and welcome to our third quarter 2010 conference call. By now you should all have received an email with a link to our supplemental, but if not, it is available on our website at www.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, and Gary Anderson, Head of Global Operations and Investment Management.

Yesterday afternoon, we announced our intention to offer, subject to market and other conditions, 80 million of our common shares. A separate press release was issued and a preliminary prospectus was filed providing details about the proposed transaction. The proposed offering is being made only by means of the preliminary prospectus supplement and related prospectus. I would refer you to the press release and the preliminary prospectus supplement for more specifics about the offering. Because this offering is pending, we are unable to say more about it on this call.

Before we begin our prepared remarks, I would like to state that this conference call will contain forward-looking statements under federal securities laws. These statements are based on current expectations, estimates, and projections about the market and the industry in which ProLogis operates as well as management's beliefs and assumptions. Forward-looking statements are not guaranteed the 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 third quarter results press release and supplemental do contain financial measures such as FFO and EBITDA, that are non-gap measures, and in accordance with Reg G, we have provided reconciliation to those measures.

As we've done in the past, to give a broader range of investors and analyst the opportunities to ask their questions, we will ask you to please limit your questions to one at a time. Walt, would you please begin?

Walt Rakowich: Thanks, Melissa and good morning everyone. We've got a lot to talk about this morning, so let me get right to it.

It's clear to us now that market conditions are improving. In Q2, we reported that net absorption had turned positive by 11 msf in U.S. markets. In Europe, the same positive trend occurred. In Q3, we again saw positive net absorption of 7 msf feet in the U.S. The figures aren't in yet for Europe, but we expect the results to be on the plus side as well.

It had been obvious for some time that sales growth has been outpacing inventory growth, as you would expect in a recovery. We're now beginning to see this trend reverse itself.

There are few important data points in our third quarter operating results that point to fundamental improvement. First, same-store NOI was a positive 0.275% and overall occupancies rose again by 24 basis points, mainly driven by occupancy increases in our direct-owned portfolio.

Our static development leasing was up by 217 basis points. Slower than previous quarters, but about what we expected due to the summer months in Europe where decisions are slow to materialize. Since the end of the quarter, overall activity has picked up. And given quarter-to-date agreements and leasing activity, we still expect our static development portfolio to be about 80% leased by year end.

In addition, rental rates are becoming more encouraging. They've certainly flattened out in most markets. And now, in a few markets, they're beginning to rise. For the last four quarters, our rental rate growth has been down 13.9% on average. This quarter it's down 8.5%.

And finally, as we've previously mentioned, we're seeing some markets where new space is almost completely absorbed. This is an incredibly positive sign for the markets and for our development business.

Now let me just spend a few minutes on our overall portfolio strategy. In our view, nobody in the industry owns a more geographically diverse portfolio of high-quality industrial assets than ProLogis. That's one of the benefits of having developed hundreds of millions of square feet of new product in global markets over the last 15 years. However, we intend to pursue opportunities to optimize our portfolio and sharpen our investment focus. Our aim is to invest our capital in the highest quality assets in major logistics corridors.

In our supplemental disclosure on page 5.4, we list the major logistic corridors in North America, Europe, and Japan and our investment in those markets. We're especially interested in these corridors because they have the highest concentration of population, which of course fuels consumption and business spending. These characteristics drive a deep and consistent need for goods and distribution in those areas.

Currently, we have 71% of our capital in these major corridors, adjusted for the Blackstone transaction. Over time, you are going to see us take this to 80 to 90% of our capital. And you'll also see our development business more highly focused in these areas as well. That is not to say that we see little opportunity in some of the smaller, secondary markets. In fact, those opportunities will continue to exist, but our strategy will be more concentrated in the major markets from a long-term, capital investment perspective. Which we believe will serve ourselves better in the years ahead.

So, how does this play into our thinking around the recently announced sale to Blackstone? Well, our strategy has been to recycle out of non-strategic assets in predominantly secondary U.S. markets. This transaction moves us forward in the accomplishment of that objective. Of the direct-owned sale portfolio, 72% of the assets are outside of the major logistics corridors in which we have chosen to concentrate our investment. In addition, the average tenant size of 44,000 square feet is about 40% smaller than our average across the company. And, only 8% of the square footage in the portfolio is leased by our global customers. So after the completion of the transaction, we'll have an additional $2 to $2.5 billion of non-strategic industrial assets that we'll target for distributions in future years. By recycling proceeds from these sales into new development, we believe we will substantially increase the NAV of the company.

In addition, we're going to look to exit our remaining investment in non-industrial properties, which primarily consists of retail and other assets we acquired during the Catellus merger. Historically, there were tax consequences in selling these assets before 2014 given the 10-year tax prohibition of selling assets that were once held in a C corporation. However, the recently passed Jobs Bill changed that provision for 2010 and 2011, and we now have a window to sell these assets sooner without C corp tax consequences. We will complete the first phase of these dispositions, by selling off our interest in the New Orleans Hilton, which we announced in the Blackstone transaction, and we are now actively engaged in the disposition of our remaining investment, which we hope to close in early 2011.

Looking ahead to the future, our prospects for growth are strong. We've talked in the past about embedded growth in our overall occupancies and in our land bank – both of which are significant. We also think there will be future growth in market rents as they climb back to replacement cost levels, although that may take some time and it could be a little bit down the road.

The emerging opportunity is in our development business. We have a very unique global franchise of people, customers, and land. In certain markets new product is virtually all absorbed and rents are poised to rise. Construction costs have adjusted downward. Competitors are on the sidelines, and we're at an all time low in terms of new supply. And most importantly, customers are beginning to look for new space.

We believe our new development starts will grow next year to $800 million, to perhaps as much as $1 billion. Levels will be up from this year in all regions of the world. How do we plan to pay for it? Really, in two different ways. For developments that are not in markets where we want our long-term capital to be, we will be sellers. Just like we were this year when we built the Co-op build-to-suit in Scotland and sold it, and the Miyagi build-to-suit in Sendai, Japan.

For the balance of it, as I mentioned, we will methodically recycle our capital out of older product or secondary markets, with the aim of holding those developments in targeted markets. This will create growth in our NAV, improve our geographic diversification and enhance the quality and concentration of our portfolio within major logistics corridors. Now, let me turn it over to Bill.

Bill Sullivan: Thanks, Walt. This morning I plan to cover four aspects of the companies' financial position and strategy: 1) Q3 and year-to-date results, 2) expectations for Q4 strategic positioning, 3) a high-level overview of our outlook for 2011, and 4) how we're thinking about our dividend.

We reported $0.22 per share in FFO for Q3 2010, after adding back $0.01 of non-cash adjustments associated with impairments related to the sale of one building and one land parcel as well as modest losses from the early retirement of debt.

Of the $0.22 per share in FFO for the quarter, $0.07 was in gains associated with contributions to PEP II and the sale of Ichikawa II, while the remaining $0.15 was core FFO. Q3 core FFO was slightly ahead of the guidance we provided last quarter when we stated that Q3 would comprise roughly 40% of our second half core FFO. Approximately $0.01 of Q3 core FFO was due to timing differences with the largest being reimbursement of certain expenses that had been budgeted for Q4. Gains of $0.07 per share also slightly exceeded the 30% of second half gains we anticipated in Q3, principally due to the strength yen and its effect on the sale proceeds of Ichikawa II.

While we've seen significant strengthening of the euro versus the dollar in recent weeks, the average euro exchange rate for core operating earnings in Q3 was $1.28 versus $1.29 for Q2, and therefore, the strength of the euro was not a particular factor for Q3 core FFO.

For the nine months ended September 30th, we have generated FFO, excluding non-cash items, of $0.42. After adding back the $0.08 of non-recurring charges that we highlighted in earlier conference calls, we have generated $0.50 of FFO relative to our full-year guidance; of which $0.38 represents core FFO, with the remainder being gain-related.

Last week, with the announcement of our agreement to sell over $1 billion of assets to Blackstone, we reduced and tightened our full-year core FFO range to reflect $0.015 to $0.02 of dilution. This was primarily due to exceeding our original guidance for sales and contributions of $1.3 to $1.5 billion. Additionally, the closing of the sales will take place sooner than expected with limited immediate reinvestment opportunities other than paying down the line of credit balance to zero and paying off our November bond maturity.

For the first quarter in a long while, I'm not going to spend any time talking about debt maturities. With less than $400 million due before 2012 in non-balance sheet debt, we are well positioned. We do, however, intend to continue to deleverage the company and bring our leverage, debt-to-EBITDA and fixed-charge coverage in line with the sector and in line with investment-grade metrics.

We remain comfortable with our guidance for full FFO, excluding non-cash items, from $0.70 to $0.78, which includes gains. Relative to core, including the dilutive impact from the Blackstone transaction, we expect our Q4 core FFO run rate to be roughly flat with Q3. As noted in our press release, we anticipate taking charges in the fourth quarter associated with strategic positioning activities, which will not be included in our core FFO.

Relative to the strategic positioning initiative, we are highly focused on implementing a number of these in the fourth quarter. The most significant of which are:
1) the strategic decision to more aggressively pursue land sales, wherein, we are undertaking a rigorous, re-evaluation of all land position, with the aim to expand the bucket of land we will actively pursue sales on. As a result, we may take further impairments on our current book basis, which we would expect to be in line with discount ranges presented in our recent investor presentations.
2) We are going to pursue a tender for various bonds and/or converts of between $1 and $2 billion with the principal intent of further smoothing our annual maturities, as well as deploying the proceeds from our asset sales more accretively. The cost associated with these tenders, from both potential premium paid as well as transaction cost, will be incurred a special charges in Q4.
3) We are likely to close out a few derivative positions inside our funds, which have become ineffective, as well as incur swap breakage costs as a result of a partial repayment of some fund debt. There would be one-time charges associated with these transactions.

4) We continue to focus on simplifying the company in creating incremental cost savings from structural and platform efficiencies, some of which may be incurred or reserved for in Q4.
5) Finally, we are pursuing the sale of various non-core, retail, mixed-use and ground-lease assets, principally associated with our purchase of Catellus in 2005. The pursuit of the sale of these assets will likely result in a book impairment of approximately $120 million in Q4, but will also move us well down the path of simplification and getting back to our industrial roots.

Implementation of these initiatives represents the completion of our stabilization and simplification task that we laid out two years ago in New York. Relative to these tasks, we're at the 26-mile mark in the marathon and the finish line is in clear sight.

Lastly, let me address our thinking about our dividend and core FFO for 2011. While the Blackstone transaction is expected to generate taxable gains, due to our intent to repurchase debt and other anticipated fourth quarter charges, our taxable income will be lower than we originally planned. As such, we plan to distribute $.1125 per share in the fourth quarter. Our Board currently intends to maintain this level of cash dividend throughout 2011, which is a dividend level more in line with our expected taxable income and AFFO from core operations. We anticipate growing the dividend over time in line with AFFO growth.

Turning to core FFO per share in 2011, we are looking at growth of 15% or more over 2010 core. We plan to provide detail business drivers to support that guidance in early 2011. While our growth rate in 2011 will be impacted by the reinvestment dilution associated with our 2010 asset sales, we anticipate growth from the impact of further development portfolio leasing and occupancy, new built-to-suit developments coming online and higher average occupancies in both the funds and core portfolios.

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

Walt Rakowich: Thanks, Bill. In closing, let me just say a few things first.

Global markets are beginning to rebound and occupancies continue to rise. Overall, it's beginning to feel better out there.

Second, we think there will be strong development opportunities with healthy margins for companies with customer relationships, land, expertise and access to capital. This is where we intend to deploy the vast amount of our capital in the years ahead.

And, third, when you combine the potential NAV accretion from the diversified development business, with the upside associated with occupancy gains, depressed market rents and monetization of land; it's a powerful backdrop for future growth. Brighter days are ahead.

Thank you. And, now, operator we're able to open it up for Q&A.

Operator: Our question and answer session will be conducted electronically. If you wish to ask a question of 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. And once again, that is star one, to ask a question. We will pause for just a moment to assemble our roster.

Your first question comes from the line of Rob Salisbury from UBS. Your line is open.

Ross Nussbaum: Hi, good morning everyone. It's Ross Nussbaum. I'm here with Rob. I just wanted to clarify from the earnings release that the commentary surrounding the expected FFO per share growth in 2011 of 15% plus – did that include or exclude the expected earnings dilution from the equity offering?

Bill Sullivan: Hey, Ross, because this public offering is pending, we're unable to say more about it on this call.

Walt Rakowich: Ross, we're sorry about that, but we just can't say anything about the offering.

Operator: Your next question comes from the line of Steve Sakwa from ISI Group. Your line is open.

Steve Sakwa: Thanks. Walt, maybe you can't answer this one either. It seems like you went through a lot of conferences in September and I know that there was maybe half the people told you to do something, half the people told you not to do something. And it seems like you guys were pretty steadfast in agreeing you needed to deleverage the company but that you didn't need to do it right away. It just seems like your thought process has changed rather quickly, but yet you talk about the business being good and improving both on the development side and on the core leasing side. I'm just trying to figure out what's changed in the last couple of weeks?

Walt Rakowich: Well, I guess let me answer the thought process questions associated with what we had said in the past Steve. We knew, eventually, we will have to issue equity in the company. It was just really a question of when. But our focus, really, was and continues to be, asset sales. The focus of the asset sales, I think we talked about somewhat was deleveraging but also, candidly, repositioning the portfolio and paying for future development. That really hasn't changed one iota. And, we're going to continue to focus on those asset sales moving forward.

Now, that said, we may or may not be doing – our plan next year will come out in January as to how much we plan to sell next year. It may not be nearly as much as this year because, at the end of the year, we may end up selling, $1.6 to $1.7 billion of assets. I don't think we're going to need that much in the way of sales moving forward.

But really, our plan hasn't changed overall nor has our overall view that eventually we would have to bring equity into the company. It just a question of when.

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

Sloan Bohlen: Good morning guys. Sort of a similar question in regard to future asset sales. One, if maybe you could size the prospect for land sales going forward. What you're looking at there? And, then with regard to those future sales, how much of that goes towards new development versus how much of that would go towards further deleveraging the company, and whether there's a target in mind with regards to leverage?

Bill Sullivan: Yeah, Sloan, let me pick up on that. I think we've been fairly consistent in terms of our long-term leverage metrics. People measure them in different ways but the way we look at it from a debt-to-gross real estate asset perspective. We want to be in that sort of low 40s range max – sort of 40 to 45% range and over the long term hopefully towards the bottom end of that range, if not below.

From a debt-to-EBITDA perspective, we clearly intend to get that down into the sevens, and from a fixed charge coverage ratio, we want to get that up. All of those metrics we want to get in line with strong BBB investment grade metrics, and so that's where we're focused.

In terms of the asset sales and land sales, we're still working through the whole budgeting process and allocation. Our intent is to more aggressively pursue land sales, by widening and opening up the bucket of land available for sale. That's not in and of itself going to generate land sales but it will certainly give our guys better direction and the ability to get creative in that.

We've talked about, over the next two to three years, that we want to get our ultimate land balance down into that $600 to $750 million range. That's our focus in terms of land sales, as well as, putting land into development is long term, getting it down into that range. So if you sort of look out three years, that's where we'd hope to be.

Walt Rakowich: And I'd also say – and again we haven't come out with the 2011 plan – but one of the things I referenced in my discussion is on page 5.4. It's new disclosure where we've sort of highlighted what we believe to be the major logistics corridors in the markets that we operate in.

This is where a lot of our investment, a majority of our investment, will take place in the future. And again, this is where 71% of our investment is today. So, one of the things I would say as it relates to land sales in the future is that the sales that will take place, will likely be more weighted outside of these markets than inside these markets. In other words, our view is that we would be developing in these markets. That isn't to say that we don't have some parcels within these markets that could be for sale, but it is to say that we're going to look very, very closely at developing in these markets. And, so in the determination of all of that, we'll take that into account.

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

Ki Bin Kim: Thank you. To follow up on that previous question, regarding your leverage targets, what are the leverage targets that you're credit rating agencies are comfortable with in terms of debt-to-EBITDA or fixed charge coverage? And, it seems like even to hit your own leverage targets, even the best possible scenario with the pending capital raise, seems like you're pretty far off. So how do you reconcile that?

Bill Sullivan: Well, first of all, because the public offering is pending we're unable to say anything about that on our call. But I think you ought to go back and take a look at the debt et cetera because candidly, we're not that far off the debt metrics other than on the debt-to-EBITDA side. As we monetize land and as we lease up the development portfolio as well as gain occupancies in the overall portfolio, we believe our EBITDA will increase substantially. So the only metric in my mind that we're out of line on today is really debt-to-EBITDA. That's because of the non-performing assets, or non-income producing assets. So I'd go back and recalculate some of those debt metrics.

But relative to the rating agencies, I'm not going to go through every single agency. We put this in our presentation back at the BAML conference a couple of weeks ago. Every single agency calculates each of those metrics in a dramatically different fashion. So they have debt-to-EBITDA targets, one of them has if you're below 10 times you're in good shape. Fixed charge coverage, one of them has if you're at 1.5, another at 2.0, but they bear no relationship to each other in the calculation.

And so it's just a very confusing thing. I would encourage you to go back and look at sort of the last page of our presentation and you can get some indication as to how differently they calculate them, but clearly we're focused on improving the leverage metrics.

Operator: Your next question comes from the line of Chris Caton from Morgan Stanley. Your line is open.

Chris Caton: Thanks, good morning. I think I'm following up on a line of questioning. Looking at the major logistics corridors and where you have investments, can you talk about the positioning of your existing land bank and where it is relative to these logistics corridors and where you see, say earliest, say spec development being justified by market fundamentals?

Walt Rakowich: I can. Although Chris, I will say that as Bill said in the fourth quarter we're going to undertake a review of the investment in the land and take impairments. So I want to caveat my comments by saying that the book value today may not be the book value at the end of the fourth quarter.

I will say, based on the book value today, close to 79 or 78% of our land is in the U.S. logistics corridors and about 66% of our land is in the corridors in the U.S. – excuse me, in Europe – relative to the book value today.

Now again, that may change with the overall analysis that we're going to undertake in the fourth quarter but it does give you a pretty good idea. I will say that those numbers pretty closely mirror the acreage, which obviously will not change. So, we are pretty well positioned to develop in those corridors relative to our land overall. But again, I can't tell you where the fourth quarter numbers are going to come out.

Bill Sullivan: In terms of the second part of the question was, what markets are likely for –

Walt Rakowich: Oh, for development? It's interesting, Chris. The build-to-suit business, we're seeing across the board. I mean, we are seeing it in markets – it's not like you have more build-to-suits in one market verses another. I mean, it's amazing how spread out that seems to be. What that's really done is create an opportunity for us, this year at least, to look at a few build-to-suits and say – do we want to own this or don't we want to own this? As I mentioned in my comments, two of those build-to-suits we decided to sell off. One was in Sendai and one was in Scotland.

With that said, I think the markets that are probably ripe for development in the future and, I'll say this, by saying non-build-to-suit development, i.e. a little bit more inventory development, are L.A. seems to be picking up steam. Toronto is picking up steam. Potentially pockets of Washington D.C. are picking up steam. I'd also say areas within the U.K., and areas with certain size ranges within the U.K. particularly – larger buildings – appear to be picking up steam. Our folks are very bullish on Stuttgart and Munich.

So there are areas throughout the world – and certainly Tokyo – there are areas throughout the world where we really believe the markets are actually back today. We'll begin to see some development moving into next year.

Operator: Your next question comes from the line of Brendan Maiorana from Wells Fargo. Your line is open.

Brendan Maiorana: Thanks, good morning. I just wanted to go into the guidance a little bit more and maybe exclude the potential impact from the equity offering because you guys can't talk about it. If you're at $0.42 year-to-date and at $0.53 to $0.56 for the full year – so $0.11 to $0.14 in Q4 – how are you going to get up to a 15% growth per share over the 2010 estimated in 2011? Given that the run rate will be around, I guess the $0.12 to $0.13 a share range in Q4 and that probably doesn't include the full quarter impact of the Blackstone sale.

And then you'll be selling an additional $350 to $550 million of non-core assets, which are also likely to be dilutive. So it just seems like, there's a lot of growth that's going to get baked into 2011, and I'm wondering where that's going to stem from?

Bill Sullivan: Well, let me clarify. Hopefully for the, maybe the second to last quarter, but one of the last two quarters of confusing numbers because as we head into 2011, we hope to have this thing simplified. So that all the numbers that everybody is focused on are identical and hopefully you guys will start focusing on core as a key sort of guidance measure so that the consensus estimates out there become consistent.

But, just to clarify the $0.42 et cetera. Back in my comments, I talked about the fact that we've got $0.42 of year-to-date FFO. However, in the first quarter – and this is all related to our guidance – in the first quarter we had about $0.08 of actual cash but not non-recurring charges principally associated with our tender exercise earlier in the year where we paid some premiums on the repurchases of those bonds.

So when we talked about guidance, we were talking about excluding those sort of one-time charges. We've generated – if you exclude those one-time charges of about $0.08 – we've generated $0.50 of FFO this year, relative to our $0.70 to $0.78 full-year guidance. On a core FFO basis, we've generated $0.38 this year. In other words, of that $0.50, $0.12 is clearly related to gains.

We've generated $0.38 of FFO, relative to our core FFO guidance of $0.53 to $0.56. Therefore, our fourth quarter, to come inside the range, would be $0.15 to $0.18 or $0.19, OK. Now we've taken into account the dilutive impact that we'll have in the fourth quarter from the reinvestment of the Blackstone proceeds et cetera. But just, I want everybody to be clear, from our perspective relative to our guidance, our FFO; our core FFO year-to-date is $0.38 and our full year FFO, year to date is $0.50 relative to our guidance.

Operator: Your next question comes from the line of Sri Nagarajan from FBR Capital Markets. Your line is open.

Sri Nagarajan: Thanks. Walt, just following up on your earlier comments on the markets that are picking up steam and your starts of $800 to $1 billion in development for next year, is this a net expansion or existing tenants simply moving up to better locations? Meaning that, are they increasing overall demand from net new demand or is just an expansion or are people simply moving around?

Walt Rakowich: Good question. I would say that what we – first of all, in the last four quarters we've started $593 million of new starts. Just to put things into context, let's just round that and say in the last four quarters it's been $600 million. So the expansion would be going from, if you will, $600 million to what we think is $800 million to $1 billion.

What we've really seen for the most part in the last four quarter is a little bit of musical chairs – meaning that companies are moving from one facility into another generally in search of efficiencies. So, they may not be expanding, but they are certainly keeping, roughly the same square footage – some may be a little up, some a little down but moving from one asset, which is older into another asset that's newer.

What we expect to see and what we're beginning to see overall is expansion. If you take a look at the fact that first of all in the U.S., gross absorption last year was down roughly 50 msf to 60 msf. It was the first year gross absorption was down in the U.S. in the over 25 years since it's been tracked.

This year, year-to-date gross absorption is a positive 35 msf. In most years, if you go back over 25 years, gross absorption is anywhere from 50 msf on the low side to close to 200 msf on the high side. And so, what we're beginning to see is positive gross absorption. We're seeing the same thing in Europe. That really to me, says that we're looking at expansion. In my view, expansion means an overall expansion of our business. So we feel that we could build roughly another $600 million to $700 million of build-to-suits next year if the market was, if you will, still in musical chair land. But in fact, we think the market will be expanding next year based on what we see and that's what gives us more comfort in the $800 million to $1 billion range.

Let me just point out one other thing. If you take a look at overall retail sales and track that on a peak-to-trough basis, those retails sales went down 12%, then up 9.5% and they're down roughly by 4% peak-to-trough. And then you look at inventories, which went down 15%, and they've only recovered about 6%, and they're basically down 10.5% peak-to-trough.

What that basically tells you is retail sales are rebounding, inventories haven't rebounded but again we're seeing that inventory rebound starting to kick in today. In terms of our discussions with our customers, in terms of the positive absorption that we're seeing, all of that is giving us comfort moving into next year that we should see an expanding development program.

Gary Anderson: I'd just add if you look beyond the development portfolio and look at our broad portfolio, the composition of our customer base really hasn't changed that dramatically over the course of the last year. It's still 3PLs, transportation companies, electronics, appliance and paper packaging being the largest customer segments. But what we really have seen is certain segments begin to emerge. So internet retailers are emerging as a group that is really taking up space as well as food and supermarkets, healthcare and paper and packaging. The paper and packaging companies are segmented as a group that we're really looking closely at because they track very closely the increases in retail sales and inventory levels.

Operator: Your next question comes from the line of John Guinee from Stifel. Your line is open.

John Guinee: Oh, hi. John Guinee here, a couple of quick questions. Bill when you do your math, essentially what your implying is that you can run this business at a $0.15 to $0.16 FFO run rate for the fourth quarter and then in to 2011. Is that an accurate statement, and can you push it beyond that?

And then the second question is, Walt, as you know, you can sell assets anywhere from a sub 6 cap, up to unsafe at any cap, they won't even trade it at a 9 or a 10 at a third-tier quality product in third-tier markets. Can you sort of run through the spectrum of cap rates throughout your portfolio? As you, as you do your 2011 planning?

Bill Sullivan: That was a fabulously sneaky way to get two questions in. Let me address the first. I think your first statement is accurate. When we look at the fourth quarter that sort of number makes sense and that will drive into 2011. At that point, we will see. We probably expect a continued roll down on rent renewals, but hopefully nothing as dramatic as we saw earlier in the year and hopefully more on a line that is coming down.

However, we will have the benefits of the incremental occupancy that we gained this year in the development portfolio and hopefully increasing occupancies in both the overall portfolio but particularly the development portfolio going into next year. So we are going to have a little bit of a roll down but were also going to have increased occupancies and the full year of benefits.

Now that's going to be tempered a bit depending upon the reinvestment opportunities associated with the asset sales et cetera. Again those are marginally, or slightly, dilutive today because our easiest and most obvious reinvestment rate is in reducing lower cost debt. So we've got a spread there. But overall, I think you hit the nail on the head in terms of fourth quarter as sort of the runway going into '11.

Walt Rakowich: And John, good question on the cap rate, and you're right you can run the gamut on this thing. So let me just say, I know of very few assets that we own that I would classify as third-tier quality. So, it's hard for me to really speak to that. If you got a third-tier quality asset, you might not be able to sell it at all but we don't own that type of product by and large.

So, I would just say the spectrum of cap rates – let me talk first about new assets throughout the world and then we'll focus on second tier. New assets in Japan are probably 5.5% today. In the U.K., it's probably 6 to 6.25%. On the continent in Europe and Western Europe, it is probably 7%. I'd say U.S. major markets would be anywhere from 6.5, maybe even low 6s, to7%. And when I say major markets, it's really the U.S. large corridors that are listed on page 5.4.

So, our focus is really building assets at an 8 or 8.5 or a 9 and picking up NAV growth through where the new asset cap rates are. But if we look at secondary markets and really, we don't own a lot of second generation properties in secondary markets, but to the extent that we do, I'd say those assets today are trading anywhere from 7.25 to probably an 8.5. And that kind of circles the fence let's say and that would be in the U.S. And that's hard for me – and I would say that is probably the case for Europe as well – it's hard for me to really gauge where second generation assets would trade in Japan, we just don't own any. Nor do we really own much in the way of second-generation assets in Europe, so we don't see a lot of that trading. But in the

US, again I would say 7.25 to 8.5, if they're decent assets in second generation markets that have a little bit of age to them.

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

Steven Frankel: Thank you guys and good morning. You guys have mentioned NAV a few times in the presentation. Where do you see that today and what are your thoughts on other ways to – I know you can't talk about today's exact equity offering – but think about equity raises potentially at below the mid-point of your previous published NAVs going forward, and how do you make up for the dilution?

Walt Rakowich: I think we've got, Steve, what we've published in terms of NAV in the past and all of that is in the supplemental reports, so, I don't know exactly how to answer your question other than to say I think we have provided it pretty clearly.

In terms of equity, I think we have to be careful at this point in time because we have the public offering, and so we are unable to say more about it on the call. After today, we should be able to talk a little bit more about it, hopefully.

Bill Sullivan: Yeah, and Steve, just to follow on him. We laid out, both at NAREIT and more recently the Bank of America conference, our range of NAV relative to the components. We put those components, you know the inputs to those components, in our supplemental every quarter now. Relative to our NAV, beauty is in the eye of the beholder. I would encourage all of you to sort of look at our template, look at our inputs and then apply whatever sort of valuation metrics into those inputs.

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

Michael Bilerman: Thank you. Good Morning. Walt, you and even Bill talked about the fact – and I think you even said you glossed over the debt maturity schedule because there really is no use and it's really been smoothed out so there's no immediate use of proceeds – even in the Blackstone transaction, just being able to pay down the line of credit. So I guess as I sit back and think about a lot of the things that you said during the year – in terms of even pushing out a lot of the sales to later because you didn't have a use of the proceeds – why is now the time to get really, really aggressive on raising capital and then even pay a premium to tender for debt. Why not stay the course and continue what you're doing?

Bill Sullivan: Well, Michael, because – this is going to sound repetitive – because this public offering is pending, we are unable to say more about it on this call.

However, relative to the debt tenders and repurchasing debt, look I think, personally, it makes sense to continue to attack the debt maturities and the smoothing of those debt maturities at all times. Paying a premium for potentially pieces of that is a factor of where interest rates are now versus where our debt costs are. The other opportunity in attacking some of that debt is to position ourselves better for future debt issuances, and candidly, transfer some of that debt – you know that we might issue in the future – over into the euro-related Eurobond market to begin increasing the natural hedge on the euro.

We've gotten a pretty sizeable rise on the euro over the last four to six weeks. We do already put in place TMK bond debt as we stabilize our Japan buildings and so that provides a natural hedge to the yen, but we're light on the natural hedge of the euro today. So cleaning up some of this debt, taking it out of the system, smoothing out the maturities and potentially being able to replace it with euro-denominated debt over the next 12 to 18 months, in our mind, would be prudent.

Walt Rakowich: You know Michael, I guess I've just also answer a piece of your question by saying that we do think that the growth opportunities are picking up steam. At the end of the day, we want to make sure that we are extremely well capitalized in this company to take advantage of those opportunities. I think that our views, certainly in the last three months, are beginning to progress, because we are seeing the markets get better and better and better. And I think there's going to be a number of companies that are developers out there that will be on the sidelines and not able to take advantage of those opportunities because they're not well capitalized. Our company is in a great position take advantage of them, and we want to make sure that we are well capitalized to do it.

Operator: Your next question comes from the line of George Auerbach from ISI group. Your line is open.

George Auerbach: Great, thanks. Walt you mentioned that rent roll downs improved in the third quarter but what's your expectation for roll downs in 2011? And I guess across the portfolio where do you think in place, escalated rents are today relative to market?

Walt Rakowich: I am going to ask Gary to get that one. Gary can you get that one?

Gary Anderson: Sure. I think that Walt said in the beginning of the call. We are seeing net effective rent basically stabilize across all of our global markets. We are expecting them to be flat-to-up in 2011. For the last four quarters, the average rental rate growth was negative 13.9, and again, Q3 was negative 8.51%. I think our view is that there is going to be variation in the go-forward quarters probably up from that 8.51% but ultimately it will trend down through 2011 as we roll off 2006, '07 and '08 peak rents. So the general trend is down from where we are today.

Walt Rakowich: And I'd say George, it's hard, it's really hard to say where the rents are relative to market because the market really is moving quickly. If you take a look at where our investment is – one of the things we really haven't talked about is we have $2.4 billion of our investment in L.A, which is sizable relative to the overall company, it is our largest investment by 2.5 times any place in the world – and we're beginning to see rents move up in Southern California. So it could have a very significant impact, positive impact, on our rent roll downs next year, and we've got to take a close look at it. I would estimate that we are still over market by call it 5, 6, 7% in the aggregate. But that could really change very quickly. I mean market rents jump 5% and all of a sudden, three months from now, I will tell you we are at market. So we'll see, but we are beginning to see some good things happening out in the market place today.

Operator we can take one more call, one more question, excuse me.

Operator: Your last question comes from the line of Sri Nagarajan from FBR Capital Markets. Your line is open.

Sri Nagarajan: Yeah, thanks. For the follow up question here, I think your peer AMB remarked that their remaining lease up of property is taking incrementally longer to lease up because what's left over is in the sub markets that are weaker. As you sit on a 75%, 73% leased to development portfolio to easing up. What is your prognosis on this?

Walt Rakowich: Well Sri, I'd answer this by saying, we ended the quarter at slightly below 75% – one I want to point out so that everybody knows is that we have a development portfolio leasing number and then we have, if you will, a static leasing number. The reason we track that static number because as we leased up some of these buildings we had commitments to contribute those assets into mainly the European fund and the Japan joint venture as well. So, as we take those out of the portfolio, the leasing essentially drops because you are taking fully leased buildings and essentially contributing them.

So, if you look on page 3.1 the actual leasing in the static portfolio, down at the bottom, is 74%. That number, I can tell you, has jumped materially since then, closer to 76% today because of some of the leasing that we've done in the quarter. And that's what gives us confidence that that number will rise to 80%. That number went up 217 basis points during the quarter.

We've talked about it, if you go back to what we talked about in the second quarter call, we knew that the third quarter would be a little slower – it always is in Europe. The majority of the space that needs to be leased is in Europe. So, we've got confidence based on the activities that we see that we will be in that 80% type level at the end of the year.

Ted Antenucci: Ted Antenucci here, also, relative to your question pertaining to weaker sub markets, I think we wouldn't really describe that the buildings are necessarily in weaker sub markets. For the most part everything we built is in the best markets in the world. There are certainly going be some buildings that we have leased a portion of, that will have space available in, that are 100,000-square-foot unit or 150,000-square-foot unit, of the larger building. Often times, it takes a little while to find the right size customer to fit that remaining space.

So, as time goes on, you end up with less available units that will meet users' demands, or users' needs, and therefore you're not going to be able to lease it as quickly as you did when you had two or three units that were larger that could be broken down and accommodate just about any size. So I think naturally it takes longer as you get to the end, but I wouldn't necessarily describe it because they're lesser quality buildings.

Walt Rakowich: Thank you everybody for your questions. We look forward to seeing many of you at NAREIT and on the next quarter call.

Operator: Thank you for participating in today's ProLogis third quarter 2010 financial results conference call. You may now disconnect.

END