

ProLogis

Moderator: Melissa Marsden

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9:00 a.m. CT

Operator: Good morning, my name is Steve and I will be your conference operator today. I would like to welcome everyone to the ProLogis second quarter 2010 earnings conference. 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 would like 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're received.

At this time, I would like to turn the conference over to Melissa Marsden, Managing Director of Investor Relations and Corporate Communications with ProLogis. Please go ahead, ma'am.

Melissa Marsden: Thank you, Steve. Good morning, everyone. Welcome to our second quarter 2010 conference call. By now, you should all have received an email with a link to our supplemental, but if not, the document is available on our Web site at ProLogis.com under Investor Relations.

This morning, we'll hear from Walt Rakowich, CEO, to comment on the market environment, then from Bill Sullivan, CFO, who 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 the prepared remarks, I'd like to quickly state that this conference call will contain forward-looking statements under Federal Securities laws. These statements are based on current expectations, estimates and projections about the market and the industry in which ProLogis operates as well as management's beliefs and assumptions. Forward-looking statements are not guarantees of performance and actual operating results may

be affected by a variety of factors. For a list of those factors, please refer to the forward-looking statement notice in our 10-K or SEC filings.

I'd also like to state that our second quarter results press release and supplemental do contain financial measures such as FFO and EBITDA that are non-GAAP measures, and in accordance with Reg G, we have provided a reconciliation to those measures. And as we have done in the past, to provide a broader range of investors and analysts with an opportunity to ask their questions, we will ask you to please limit your questions to one at a time.

Walt, would you please begin?

Walt Rakowich: Sure. Thanks, Melissa, and good morning, everyone. This morning I'll talk about business fundamentals and then update you on progress toward our goals for 2010, which we are very, very happy with. Bill will then discuss our earnings for the quarter and our financial outlook for the balance of the year.

Overall, the market feels a lot like it did last quarter, bumping along the bottom, with some evidence of it strengthening in a few markets. Consensus GDP forecasts have been revised down in most areas of the world, and our customers are reading the same headlines that we are and have the same concerns that we have. In general, I would say most of our customers still remain cautious about making definitive inventory expansion decisions.

Now, there are positive signs, however. In North America, market occupancies ticked up 16 basis points for the quarter and net absorption was positive, at about 11 million square feet. This is the first time we've seen a positive movement in market occupancy since the third quarter of 2007. In Europe and Asia, supply chain reconfiguration and ownership shifts continue to drive demand for our new, modern facilities. I'll have more to say later on our new developments, but we're making good progress, particularly abroad.

In our global portfolio, we achieved a 45 basis-point increase in our lease percentage during the quarter, driven by a nearly 500 basis-point increase in leasing in our completed developments. As for rental rates, we think they've reached the floor in most markets, but same-store rental growth will continue

to be challenging until such time as meaningful occupancy increases take place.

Our rental growth for the quarter was negative 15.7 percent, but note, less than three percent of the transactions drove about a quarter of the decline and many of those leases were short-term deals. In addition, bear in mind that we're now rolling down 2006-2007 rents, which were done at the peak of the market. The good news is that our retention ratios remain extremely high at approximately 80% and our portfolio remains well-occupied relative to the overall market. That's due in large part to the quality of our people and the quality of our assets.

Another interesting thing we see in the market is that values continue to rise for core industrial products. There's an ample amount of institutional capital on the sidelines and interest rates are low. Buyers can buy assets at below replacement costs due to low rental levels, and there's no speculative supply being built. Frankly, it's a pretty good environment for buyers and sellers, with the only impediment being that there's very little good industrial product for sale.

In the beginning of this year, we set out a goal to sell \$1.3 to \$1.5 billion of primarily U.S. properties in order to fund and retain most of our new developments. This strategy basically enables us to enhance our geographical diversification while also allowing us to deleverage the company further. However, our focus here has been to closely match the timing of our sales with our need for proceeds, which is more weighted towards the latter half of this year and into 2011.

So far, we've completed about \$250 million of sales or contributions through the end of Q2. For the balance of the year, we plan to make an additional \$200 to \$300 million in contributions to our funds or JVs, sell an additional \$100 million of land, and sell roughly \$700 to \$800 million of our U.S. assets. We'll have more to report on this as the second half progresses.

Now let me update you on the progress toward our other initiatives, which are all centered around converting non-income-producing assets into income-producing assets and creating value through accretive development.

First, we're making strong progress in leasing up our development portfolio. Recall that we started the year with our 50 million square foot development portfolio at 62% leased. At the end of Q1, we were at 67%. And, we ended Q2 at 72%. We may see a bit slower progress in Q3 due to the summer months in Europe, which are always slow, but we think we're going to end the year at approximately 80%. That implies another four million square feet of net leasing in the second half of 2010 or \$25 to \$30 million in annualized NOI upon occupancy.

In addition, at the beginning of the year, we set a goal to start \$700 to \$800 million of new development in 2010. It seemed like a lofty goal at the time, but right now we're extremely pleased with our progress. Year-to-date, including our recent announcements, we're at \$473 million or 63% of the midpoint of our annual goal.

During the quarter, we signed \$196 million of build-to-suits in the U.K., Sweden, France, Germany and Japan. So, despite fears of a fallout from European sovereign debt issues, we haven't had any customers pulling back out of plans for new development. While we may see a slowdown in decision-making in Europe, we think it will be more of a pause than anything else. Remember what's driving our business in Europe, and for that matter Asia, is not necessarily growth but reconfigurations in our customer supply chains. Companies are relocating in search of efficiencies, not necessarily growth. We think this trend continues in any economic environment.

As for our North American business, our expectation is that it will soon join Europe and Asia in contributing to our development starts. So far, we've only done one build-to-suit in North America in the last three quarters, but we expect this to change. Some markets are beginning to tighten in first-generation product, even though overall market occupancies are still low. This is an opportunity for us, in our view, as it has been in Europe and Asia, because we have great entitled land and the ability to deliver without having to source takeout capital. This is where the majority of our investment capital will go in the future.

In terms of profitability, since the fourth quarter of last year, our development yields, excluding Japan, have averaged 8.6%, with our land in at its original cost. Inclusive of our Japan developments, we believe we will create slightly in excess of \$100 million in value at today's cap rates on these new developments.

We're also making progress in creating a return on our land bank. At the beginning of the year, we set a goal to put into development and/or sell \$350 to \$400 million of our land this year. Through the end of Q2, we've hit about \$176 million, or 50% of the midpoint of our guidance. Our mission of course is to reduce our land bank over time, predominantly through development but also through some sales. Over the last 18 months, we've taken impairments on land that we intended to sell. As markets recover, we're encouraged by some recent interest from users to buy land for new facilities. Some of this interest is on parcels that were originally designated to be developed and held on our balance sheet. So, as we decide to sell the land, we may incur additional impairments on some parcels in the quarters ahead. However, it will clearly be the right thing to do, and we intend to take advantage of those opportunities should they arise.

In summary, we believe that market occupancies and rents are stabilizing across our global markets but that the pace of the recovery may still be slow. In the meantime, our portfolio has held up extremely well given its quality and diversification. We're on track with our targets to reduce the level of non-income-producing assets this year, and we believe our efforts will unlock substantial value over time.

Now, let me turn it over to Bill.

Bill Sullivan: Thanks, Walt. I will try to be brief in covering three aspects of the company's financial position. Number one, a summary of Q2 and year-to-date results; number two, guidance for the remainder of the year with some brief insight into the things that we expect will impact the second half; and number three, just a few comments on our balance sheet and fund debt initiatives.

We reported \$0.15 per share in FFO for Q2 2010, after adding back \$0.01 of non-cash adjustments associated with our share of an impairment in our

Mexico fund and the write-off of previously-paid costs as a result of our amendment to the global line of credit. Of the \$0.15 per share in FFO for the quarter, \$0.02 was in gains associated primarily with our Q2 contribution to PEP II, while the remaining \$0.13 is core FFO.

The core FFO is very much in line with the direction we provided last quarter when we stated that Q2 would likely see a pick-up in core FFO from continued occupancy gains in the completed development portfolio and reduced tax expense, somewhat offset by lower capitalized interest. The drop in the euro during the quarter had a negligible impact on the quarterly results and was essentially offset by the strengthening of the yen.

For the six-months ended June 30, after adding back the \$0.12 of first quarter non-recurring costs and year-to-date non-cash adjustments, we have generated \$0.28 of FFO; \$0.04 of that is gain-related while \$0.24 represents core FFO. We remain comfortable with our full-year guidance of \$0.55 to \$0.60 in core and \$0.70 to \$0.78 in total FFO. Relative to core, we expect Q3 and Q4 core FFO run rates to reflect a pick-up from overall occupancy gains in our development portfolio, increased development management fees and increased capitalized costs associated with the ramp-up of our development activity, particularly in Q4.

As a result, we are expecting \$0.31 to \$0.36 per share in core FFO in the second half of the year, with roughly 40% of that in Q3 and 60% in Q4. Clearly, the principle risk to this guidance is the state of the overall economy, which has clearly moderated. We continue to expect \$0.11 to \$0.14 of FFO-related gains in the second half of the year with roughly 30% of that in Q3 and 70% in Q4, principally driven by an expectation of recouping \$0.03 to \$0.04 per share in gains at the end of the year associated with our 2009 contributions into PEP II as a result of improved valuations.

As we continue to pursue non-strategic asset and land sales, we may take some losses or impairments and are well-prepared to do so in order to more quickly monetize our land bank, return solely to our industrial roots and rationalize our core industrial portfolio. To the extent we do have additional

non-cash losses or impairment charges this year, they will be added back to be consistent with our definition of FFO excluding significant non-cash charges.

Turning to the balance sheet, the balance on our line increased in Q2 by \$264 million, which was predominantly related to the repurchase of convertible debt. It is our intent to continue to opportunistically chip away at our 2012 and 2013 maturities as well as delever through asset sales proceeds over the course of the next six months. We have on balance sheet debt maturities of just \$368 million between now and yearend 2011.

At the end of the second quarter, we amended the global line to reduce the aggregate commitments to approximately \$2.2 billion, consistent with the lower level of commitments that become effective on October 6, 2010. In doing so, we reduced the commitment fee costs of the line ahead of schedule. We also eliminated the very confusing borrowing base covenant and replaced it with a more straightforward debt yield covenant. And, we cleaned up definitions in a few of the covenants to bring them back in the line with the original line agreements. We believe the amendment better aligns our senior credit facility covenants with current market terms.

As of quarter end, we had borrowing capacity of \$1.7 billion under the line of credit. Just to clarify, we would have had borrowing capacity of \$1.6 billion under the line if we had stayed with the borrowing base concept, but that is no longer relevant. What is relevant is that we now have more transparent covenant computations that are better aligned with market terms. And furthermore, we're strongly supported by our lending group.

Relative to the rating agencies and their view of ProLogis, you should be aware that Moody's put us on watch in late June. It is our expectation that they will review the credit again following our third quarter results. We expect both S&P and Fitch to review the credit in the immediate future based on our Q2 results. We believe the progress we have made over the past 21 months relative to the balance sheet, liquidity profile and the continuing momentum in our core FFO will be appropriately taken into account in all three reviews.

Turning to the fund debt, we reduced 2010 maturities by \$375 million during Q2, and so far in the third quarter, we have repaid or refinanced the entire \$172 million outstanding in PEP II as well as partially repaid PEPR's corporate revolver. Therefore, as of today, we have only \$179 million of remaining second-half maturities, which will be paid down at their maturity dates through refinancing or fund equity contributions. Our 2011 fund debt maturities totaled just \$258 million, a very welcome reprieve from the last 21 months of activity.

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

Walt Rakowich: Thank you, Bill. In closing, let me just make a few comments.

We realize that the markets are choppy, and we could be in for some slow growth ahead. But I think when you look back two years from now, we'll say that around Q2 2010 we reached an inflection point in our markets. For one, we shouldn't underestimate how important it is to have reached the point where for the first time in three years we had positive net absorption in our markets. Normally, this is a substantial turning point that signals better days ahead.

Second, there has been virtually no new supply started for almost two years, and we don't expect much for at least the next 12 to 18 months. In our view, the development market has already adjusted to the slower growth environment that we may be in.

And third, market rents may still fall some, but they are so low now that it's almost unimaginable that they will stay where they are forever. We believe that there's upside here with some level of occupancy increases. We think it's a matter of when, not if.

As for ProLogis, look, we're running a marathon, not a sprint. Everything we're doing here is with the intention of improving our company over the long term, and we're going to continue to run the company that way. We accomplished a lot in the last 18 months, but we realize there is still a lot to do. As a former President once said, "We can't just congratulate ourselves on the past, we've got to rededicate ourselves to the future." We think we've

done that, and we think the progress we're making in the pipeline leasing and in our global development business is a true indicator of the diversity in our global platform and our ability to execute. And, we expect to have more good things to talk about in future quarters. So stay tuned. In the long run, value will be created.

Operator, I think we're ready to open it up for questions.

Operator: Our question-and-answer session will be conducted electronically. If you would like to ask a question of our speakers, please press the star key followed by the digit one on your touchtone telephone. Once again, please limit yourself to one question at a time. Once again that is star one to ask a question. We will pause for just a moment to assemble our roster.

And your first question comes from Michael Bilerman with Citi. Your line is now open.

Michael Bilerman: Great. Thank you. Bill, I was wondering if you can just dive a little bit deeper into guidance. I think you talked about reiterating your \$0.55 to \$0.60 of core FFO, \$0.31 to \$0.36 for the back half of the year, 40% percent in the third quarter, 60% in the fourth quarter. That would sort of imply, just at the midpoint, just over \$0.13 in the third quarter and then ramping to \$0.20 in 4Q. That drive would be almost \$32 million in FFO going from 3Q to 4Q. So, a very large number. I'm just trying to reconcile that. You had PEPR this morning obviously decreased guidance by about 11%. I didn't think development management fees were that big of a contributor relative to the full year being only at \$20 million, which I think was your last guidance number. So, can you just walk through the pieces of how you get a \$32 million FFO boost in core FFO in Q4?

Bill Sullivan: Well, Michael, first of all, your numbers in terms of the quarters are could be off a penny or two in each direction, but ...

Michael Bilerman: Or you can just do the back half. I mean, any way you want to slice it.

Bill Sullivan: We've guided to somewhere around \$20 million-plus of development management fees. We've only generated about \$3 million so far this year,

which would indicate about \$17 million in the second half of the year. We feel pretty good about that. We believe, as we've talked before, that we're going to ramp up in the occupancy versus the leasing side of development portfolio. So we feel pretty good about that.

In terms of some of the asset sales and overall deleveraging initiatives that we have, hopefully, we'll see a moderation in interest expense itself, and on the other side, we'll see a ramp-up in capitalized interest associated with the ramp-up in overall development activities. And so, there's a bunch of ins and outs, but those are the major drivers of the ramp-up in FFO.

Walt Rakowich: Michael, this is Walt. Let me just add one thing to that, and I hear you. First of all, I think we've been pretty open about what we think the ramp-up in the development pipeline could look like. Frankly a lot of it in 1Q, and even into the 2Q, really wasn't flowing any cash because of the delay in between actual occupancy and signing leases. But I will say, to make a general comment, we adjusted our guidance in Q1 for not only the dilutive effect of the bond offering we did at that time, the capital markets transactions, but what we were beginning to see in the markets. And candidly, in Q1, we could see that the markets weren't as robust as we thought, so we did take guidance down.

And I think at this stage in the game, this uncertain market can make any decision-maker look foolish, right? But we think that we've taken into account where the market is to the best of our knowledge and based upon the fees that will kick in the second quarter and the developments – excuse me, second half – and the developments, which will kick in, I think right now we're pretty comfortable with where our guidance is.

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

Ross Nussbaum: Hi, guys, good morning. I wanted to dig in a little bit on leasing spreads. It looks like the number in the second quarter was negative 11 or negative 15, depending on how one wants to define it. Your average expiring rent per square foot next year is higher than what it was this year, and market rents may still be slipping a bit in some markets. So, if I just do the math and I look at – you've got about, give or take, 20% to 25% of your leases rolling over the

next 18 months. Is it fair to say that even with occupancy gains, it's going to be tough to see same-store revenue turning positive before the end of 2011? And then a sort of a related question, what's the true net effective leasing spread including free rent and TIs?

Walt Rakowich: First, let me just answer the first question. First of all, I don't think that it's – well, who knows? I mean, you never know. But I think you should expect that we'll see negative rent declines through 2011 but that they will moderate. The reason I say that is because right now we're turning leases that were generally done, obviously not all of them but a lot of them, we're done in 2006 and in early 2007, which to us was the peak in the market. Now, that's a general statement; obviously you have 10-year leases turning now and you have short-term leases that were done in '08. But for the most part, we're turning those peak rents right now, and we think that we're going to see the largest declines this year and that will taper off in 2011. But I also don't want anybody to think that we think that in 2011 they turn positive. You're still going to be turning in 2011 rents that you did in '07 and '08, which to me were reasonably good markets although not necessarily as good as '06.

I also believe that market rents will moderate, i.e. they're not going to go down much more. We might even see them pick up a little bit. I mean, it's such low levels right now that it's hard for me to imagine that they will go down further, in fact, if anything, maybe even come up a little bit, but not enough to turn a negative situation into a positive by 2011. I guess that would be my response.

The second bit of that, if I understand your question correctly, and then I'm going to turn it over to Chuck, but I think basically the rents that you're looking at in terms of the roll-downs are net effective rents. In other words, they're net effective rents compared with net effective rents. They take into account all of the free rent associated with every deal that we do. And, Chuck, I know I said a lot there, but is there anything that you want to add to that?

Chuck Sullivan: Ross, I think Walt handicapped it very well with regard to what's rolling. We don't expect to see a dramatic uptick in rents in the near term. But as we continue to roll off the portfolio, there may be, in many of the markets, an

inflection point with regard to market rents. And they may actually begin to move upward ever so slightly over the next few quarters. So that could actually make that number a little better.

Ted Antenucci: Ross, this is Ted. One of the things that we're finding significant about this quarter is it is the first quarter in many, many quarters that we've seen positive net absorption. If you look back on the 31 markets that we track in North America and, maybe write these down, in 2008, there was negative absorption of 122 million square feet; in the first half of 2009, it was negative 98 million; in the second half of 2009, it was negative 23.5 million; and in Q1 of this year it was negative 2.7 million. In Q2 in this year, it was plus 11 million. In normal years, we'll see anywhere between 100 million, and in a good year maybe 200 million square feet of absorption. There are virtually no starts and virtually no completions as we look forward over the next 12 to 24 months.

As this positive absorption starts to kick in, it's probably not going to be in 2011 with the exception of a few markets, but we do see kind of a bright light relative to rental growth beyond 2011. There's just no new inventory being built, and we're now seeing positive net absorption. Some markets are actually getting reasonably tight in terms of availability. Toronto would be a great example. There are very few buildings available in that market. Parts of Southern California are getting tight. We're seeing several pockets where there are no buildings in certain square footages. So we're cautiously optimistic on a go-forward basis here relative to rent.

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

Ki Bin Kim: Thank you. Just going back to your opening comments on seeing the space going to an inflection point, so market rents have stabilized and occupancies as well, so cosmetically things look a lot better. What kind of impact does it have on money from institutional capital or elsewhere, looking at the space once again?

Walt Rakowich: Did you understand what he said?

Ted Antenucci: I think I do. Hi, Ki Bin, it's Ted. I think the capital market right now, or demand to buy leased industrial, is very strong. Spreads between what you can buy industrial at and where interest rates are at are pretty much at a historical high. Levered returns are attractive and the product class is hard to get into. I mean there's just not a lot of availability of industrial product for sale, and we're clearly in an environment where there is more demand than there is supply. And interest rates have really helped push pricing.

Walt Rakowich: Ki Bin, I think we should also mention that in our plan this year as it relates to our capital, we are not focused by and large in making acquisitions. One of the things we did see in a write-up by one of the analysts that came out this morning and I think we probably should make a clarification is, we did make a \$61 million acquisition this quarter – I think we've been telling you all of that we made a sale in the 4th quarter of last year that required that we do a 1031 exchange this year - so we've been looking for acquisitions to buy.

This happened to be a great acquisition that we could buy at below replacement cost because we're basically buying it at 80% leased. We're very comfortable with the leasing risk associated with it. So we did purchase it. But were it not for the 1031 exchange requirement, we are not in the market to acquire today. We would much rather put our capital into the development and building out of our land bank and taking non-income producing assets and turning them into income-producing assets.

Bill Sullivan: Just to clarify so there's no surprises next quarter, - I think we've used this number throughout the course of the year - we have \$115 to \$120 million of 1031 requirements this year. Again, we did the \$61 million acquisition in the second quarter and will do another \$55 to \$60 million acquisition in the second half of the year, most likely in 3Q. That is for our own balance sheet and those are the only acquisitions that we anticipate for this year.

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

Sloan Bohlen: Hi, there. Just a question on capital. I know we'll hear a little bit more on the details of the sale of the U.S. assets at the back end of the year but I wonder if you can maybe just take a stab on pricing and what demand could look like

for those assets and whether those would be portfolio sales or one-off? Then second, what the use of the proceeds would be? How much of that goes towards paying down debt in the back end of the year versus how much of it goes towards funding development or other activities?

Ted Antenucci: I could certainly talk about that – I think it's a mixed bag. There is the opportunity for us to do a portfolio sale. There are also several one-off sales possible. Some of the sales that we're pursuing are retail sales - some of the old Catellus stuff, which is why we generated that one 1031. So I think it's kind of a mixed bag, which makes it difficult to give you any kind of yield. I think cap rates for good quality, I mean real high-quality industrial, great markets, in some of those markets is below 7. I think if you want to take an average number, it's probably between 7.5 and 8, if you were to look at it throughout the U.S.

And in terms of what we're going to do ...

Bill Sullivan: I would suspect it will be more of a portfolio sale than one-off sales. Secondly, our target right now is to complete that late in 4Q to more closely match up with the kick-in of some of the development capital needs, et cetera. So we'll probably use a little bit of the proceeds to delever. We will probably use a little bit of the proceeds to cover the development expenditures, et cetera.

There's a chance that we could complete that earlier in the year or earlier in the second half. And at that point, we're going to look at, jeez, what's the most cost-effective means of deploying that capital in the near term to await the development expenditures. So it all depends on completion timeframe and opportunities that exist at that point in time.

Operator: Your next question comes from the line of Shane Buckner with Wells Capital Management. Your line is now open.

Shane Buckner: Thank you. Could you discuss a little bit the amount of underutilized space in your occupied space? I know you had mentioned that before in light of your comments on the positive absorption and tight markets and certain markets. I'm just wondering if you can comment on that?

Chuck Sullivan: Sure, Shane. We've gotten very, very close to our customers during the downturn and that specific discussion about shadow space comes up frequently. Candidly, at the beginning of the downturn it spiked, but today there is a high utilization of space throughout the portfolio. As a matter of fact, customers are working very, very hard to optimize remaining, if any, capacity in their space. They're running at utilization rates that candidly we haven't seen for quite some time. In the long run, this may create some pent-up demand. It may create some inefficiencies in their portfolios, but right now they're highly utilizing the space that they're in. I hope that answers that question for you.

Operator: Your next question comes from the line of Jamie Feldman with Bank of America. Your line is now open.

Jamie Feldman: Thank you and good morning. I was hoping we could go back to the guidance for one minute. Just in terms of the \$17 million of fees, can you give a little bit more color on kind of the risk of those not coming through? Then also, as we think about 2011, I assume that the fee stream probably declines. If you could talk about that and then also just in terms of development pipeline lease-up, to get to your 2010 core guidance, how many of those leases are already signed and just need to take occupancy versus kind of new leasing that, you're not maybe even discussing yet?

Bill Sullivan: ... second half. Let me – I'll talk about the lease.

Walt Rakowich: Go ahead.

Bill Sullivan: The fee side of it.

Walt Rakowich: Sure.

Bill Sullivan: Jamie. If we ballpark a number of \$17 million, I'd probably say \$14 million of that is contractual at this point. Some of that fee stream also rolls into 2011, with incremental fees in 2011 from the ramp-up on our development management activity. That includes both development management on build-to-suits for our customer base, hopefully most of which will be focused on

land that we own that they buy. But they want to own it at the end or own it and build it themselves. And secondly, an increase in the ramp-up in our solar activities. We put out the announcement with SCE a couple of weeks ago, or a month-and-a-half ago or so, and that is a relatively large multiyear assignment with them.

So I don't know about the absolute level of development management fees as yet that we've targeted for 2011 but that is a business that we're growing and continue to – and will hopefully continue to generate fees. So I would say the vast majority is contractual at this point for the rest of the year and, in fact, some of those projects roll strongly into 2011.

Walt Rakowich: Yes. And I was going to add to that, Jamie, I think this fee business is a business that you have to expect will continue and frankly we've been in the business for years now. If anything, I think user interest is picking up, and I think we're going to have a lot of opportunities to build buildings for users. Some will be on our land and some of it will not, but this is not a business that's a one-time thing. In fact, if anything, I would hope that it's a business I think and fully expect that it will grow from the \$20 million on an annual basis moving forward. As Bill said, the solar activity we have got going on, which is a pretty meaningful contributor to that, and we've only put solar on 2% of our roofs right now. So we have a long way to go in terms of what we can do there.

But really the other piece of this is just the development lease-up. You've got the numbers there. I mean we went from 67% to 72% this quarter, and I think you can probably assume that virtually all of those leases done are not generating any rent in the second quarter. You can also assume that a pretty good chunk of – we can get you the numbers, I don't have it - but, you know, that was leased in the 67%, still wasn't generating income in the second quarter. And I think you can also assume that some of going from 72% to 80% will generate income by the fourth quarter, although not all of it, obviously, because you got to get there over that six-month period of time.

So if you begin to do the math, and what I tried to do is lay out in my comments, just taking it from 72% to 80%, because some of it is in Japan, generates in the neighborhood of \$25 to \$30 million in FFO on an annualized

basis, which is like \$0.05 or \$0.06 a share. And so you can see that the development is the thing that really has the big impact on the ramp-up in the second half and some of that is already contractual that we've signed. So that's why we feel reasonably good about it at this point.

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

Chris Caton: Thank you. My question is around fundamentals. Can you contrast the ramp in second quarter net absorption with reduced growth expectations for the back half of this year? What are your tenants telling you? And then the second related question is, during your comments, I believe you said some markets started to tighten for build-to-suits or rather for first-gen space. Can you give more color on that as well please?

Ted Antenucci: Chris, I didn't catch – this is Ted, I didn't catch the first part of the question.

Walt Rakowich: I'll get the first ...

Ted Antenucci: OK. But I can get the markets. Markets are tightening. Based on our research, L.A. Orange County is below 6% in terms of vacancy. Canada is less than 5%. Inland Empire is less than 8%. I mean there is a handful of markets that are below 8% in terms of vacancy rates. That is starting to get in the range of being relatively tight. And you've got to layer onto it that there's no new supply coming on line. It is just something that we haven't really experienced, certainly in my career, other than this particular point in time.

The negative net absorption was pretty significant. Now that we're turning to positive, or so it seems, occupancy increases across-the-board could be relatively substantial, if we get back to the type of leasing environment that would be normal, not robust, just normal. And markets that are already below 8%, vacancy could very quickly get into the 3s and 4s in terms of percent vacancy which will drive demand for development and certainly increase lease rates.

So I had to hit on some U.S. markets, there's other markets throughout the world we've had great success in leasing - in the U.K. and in Germany. I mean

quite a few places in Europe are also tightening up. Japan has continued to be a good market for us from a leasing perspective. That market really never, from our perspective, got impacted in a material way.

Walt Rakowich: Chris, I would say on the growth side what the customers are telling us and what are our expectations, I think that's what you were getting at. I mean look, it all hinges on the economy. We're all sitting here wondering and none of us have a great crystal ball. I will say this, to what Chuck what was saying before, that most of our customers are telling us that they are running very tight with their inventories right now. They're also in the mode of not expanding because they're kind of holding their breath too. I mean they're sitting back and saying look, is there going to be an expansion, I mean, is there going to be better economic times ahead or not? And so all of us are asking that question.

I do think that at some point in time they will make expansion decisions, because I believe that we're going to continue to see, albeit slow, positive GDP growth, and they're running so tight right now that something has got to bust. So we believe that there will be some occupancy growth. However, as it relates to what our projections are right now, we're looking at the end of the year and saying, look, we believe that our developments will take from 72% to 80%. We feel pretty doggone good about that. Our international markets are leasing, and that's where the preponderance of our space is.

But candidly as it relates to our core occupancies, i.e. everything other than the developments, we think it is going to be up a little bit by the end of the year, perhaps 50 to 100 basis points, but not much more than that. Because I think it's still going to take time for this economy to heal itself. So we're not expecting major increases in occupancies through the end of the year save for our development portfolio.

Then the other thing, last but not least, that I'd mentioned, to reiterate what I said in my comments, is that the international markets are not really dependent as much on growth. Which isn't to say that we're expecting to see occupancy increases necessarily in Europe and Asia but it is to say that what's driving our business there is not as dependent on growth as much as it is just people moving around playing musical chairs and trying to become more

efficient at what they do. We're the direct positive recipient of that because we own newer space and because we're developers. That's why we're confident that we'll lease up our portfolio over time. That's why we're confident we're going to continue to probably do build-to-suit developments in those areas of the world because there is a need for it.

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

Steve Sakwa: Thanks. Good morning.

I was wondering if you guys could, if you flip to the same-store page, it seems like you changed the disclosure from last quarter. You took out the adjusted portfolio column, which I guess is a bit more of a stabilized figure and doesn't include the benefits of development. Do you have those figures and would you mind putting those back in on a go-forward basis?

Walt Rakowich: Yes. Steve, we do have those figures and it's negative 5.4. I believe – but we'll, as a matter of fact, we'll get back to you on that. I don't have them right in front of me, but that is the number that I recall.

Bill Sullivan: But I thought we – first of all, we didn't supply – we went to this format in Q1 as well, I believe. And really, look, at the end of the day, hopefully by the end of this year, you know, we're not even going to be talking about completed developments. I mean it is all going to mold into ...

Steve Sakwa: I understand that, but there's still a big component ...

Bill Sullivan: We will get back to you with the breakout between the two, but this is the same disclosure we had in Q1.

Walt Rakowich: And I think, Steve, as Bill said, we're definitely ...

Bill Sullivan: We didn't have it in there in Q1? My bad.

Walt Rakowich: We're definitely gravitating towards melding the development portfolio in with the overall portfolio because we're going to hold on to these buildings on a long-term basis, and they're all in the same-store pool.

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

Steven Frankel: Thank you. Good morning. Let's talk a little bit about Europe. PEPR lost another 100 bps of occupancy in 2Q, bringing its year-to-date total to a decline of about 250 bps. The company also said that it expects to slow down in the pace of the recovery in Europe to generally impact its second half portfolio performance more than previously anticipated. Given this, how is your guys' adjusted portfolio same-store number not being changed?

Also you guys made a decision in late '09 to reduce your natural hedge in Europe because you anticipated that the euro would appreciate relative to the dollar. We know the converse has been true so far, but the euro recently rebounded. Are you guys thinking about reinstating the natural hedge now given what we've seen?

Walt Rakowich: Let me start off by saying, Steve, PEPR, the occupancies did go down 100 basis points, but they started the year at over 95%. And I'm sorry, but in this market, it is damn tough to maintain occupancies at over 95%, one; and, two, I believe six months ago when we entered into the year, we were pretty clear that we thought that our investment management business, occupancies, and in particular PEPR, were going to decline, maybe as much as 300 bps or more to the 91% to 92% level. That's just simply because you cannot maintain, in this marketplace, 95% to 96% occupied this year, and we knew it. And so I don't think that what has happened at PEPR is any change. And if anything, we're expecting the second half to be relatively stable.

But nonetheless, as it relates to our same-store sales, our view is not the same as PEPR's view, because we didn't exactly enter into the world this year at 96% leased. And so if anything, our occupancies will rise because of the development lease-up. So we're in a completely different ballgame than they are. Bill, do you want to talk about the dollar?

Bill Sullivan: Yes. Hey, Steve, just getting back to your early comment, on my beginning of the year guesstimate - my bad. The euro was hurt in the second quarter relative to where it ended the first quarter, but it has rebounded a bit.

At NAREIT, we laid very clearly what our exposure to the euro was on both the balance sheet and on the FFO basis. And candidly, what we didn't talk about at the same time was the strengthening of the yen, which offset the weakness in the euro to a degree. Going forward, not immediately, not a panic mode, we will increase our natural hedge to both the euro and the yen and see if we can't eliminate some of the volatility there.

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

John Guinee: Hi. John Guinee here. Wonderful presentation, guys. Quick question on the land side of the equation. Excluding Asia, you've got about 10,000 acres, using a 35% coverage, that's about 152 million square feet of development rights – 250,000 square feet per building is 600 buildings. This is a long process. So having said that, if I look at the \$2.3 billion of land, what's your policy now on capitalizing versus expensing the interest costs and other carry on this inventory?

Bill Sullivan: Hey, John, let me address that. Historically, and the same is true today, we capitalize a relatively small amount of interest and other costs on our land. The only time that we do that is if we're actively installing infrastructure and/or prepping the particular parcels for what would be a near-term development opportunity.

So, at this point in time, we probably capitalize interest on somewhere around 12% or 15% of our overall land. That changes from time to time, as we focus on different parcels, et cetera. But in terms of a \$2.3 billion book land basis, we're capitalizing interest on something shy of \$300 million of that. That will fluctuate from time to time depending upon the activities going on. But I would never anticipate it getting substantially above that level in terms of overall percentage or dollars.

Walt Rakowich: And, John, I would add to that, that it is a \$2.3 billion number and what our plan is, is that we would reduce it by this year \$350 to \$400 million. We're on track to do that. That equates to roughly \$700 to \$800 million in development

starts, plus we would sell off roughly \$150 million of land. So you monetize \$350 to \$400 million.

We believe that we can repeat that program over the next three years. In addition to that, you should think about it being heavy at \$2.3 billion but not heavy at about a billion. In other words, we're going to carry about \$1 billion of land on our land on our balance sheet sort of when we stabilize out this company. So the reduction that we see taking place is roughly \$1.3 billion.

We think we can accomplish that over a three-year period of time. We also think that not all of that will be developed, but some of it will be sold, just like we're selling it this year, and so that you accelerate that process through the sale of certain parcels. We already have interest in – if we have interest this year, then we believe we're going to have substantial interest in the next two years. So it may sound and seem like a big number, but it is within reason and likely a three-year program for us to get down to where we really need to be.

Bill Sullivan: And just to pick a number or put things in perspective, if we had 50% of our land that we were capitalizing interest on, that would generate about an extra \$0.13 cents per annum in FFO – and we don't do that.

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

Brendan Maiorana: Thanks. I had a two-part question on the land and the development pipeline. First, to kind of follow-up on John Guinee's last question and the answer there, I guess to get the three-year monetization period, that would require that your existing land inventory would match up with where you expect development starts to be and where you expect to sell that land. I'm wondering whether or not you believe that is the case?

And then secondly, on the long-term outlook for the development pipeline, you guys had indicated around \$1 to \$1.5 billion of annual development starts over a longer term. How much of that do you envision would be built-to-suit activity versus potential spec developments? And where do you think your markets need to get to in terms of core metrics, whether it be vacancy levels or leasing absorption, to start some spec projects?

Walt Rakowich: Brendan, let me just start off with the first part. You're absolutely right. We're not planning to match our land exactly. When we say \$350 to \$400 million, we're talking in net number. For example, this year we will actually buy a really small amount of land, and we'll do some infrastructure work. So when we talk about \$350 to \$400, we mean net of purchases. So, if you look at our plan that we laid out, and we laid this out at NAREIT so I think it's still on our website, you should be able to go back and look at it, our real monetization is probably more like \$500 million on an annual basis, \$200 million in sales and \$300 million or so goes into development. So you should assume that we'll purchase probably \$100 to \$150 million off of that because you cannot match your land perfectly.

Bill Sullivan: On a long term basis...

Walt Rakowich: On a long-term basis. Not this year, but, you know, in 2011, 2012, moving into those years. Ted, on the build-to-suit?

Ted Antenucci: Yes, Brendan, I'm going to try and respond a little bit to John's question too. I think we look at our land as being about a third of the cost of our development. That's on average; some places it's more, some places it's less. If you use a midpoint of \$1.25 billion in starts, once we kind of ramp up to a normal economic environment, we'd be monetizing \$400 million a year worth of land.

We believe long-term having about \$1 billion land bank, somewhere between \$800 million and \$1 billion, is about a 2 and 2.5 year supply of land. We think that's appropriate on a go-forward basis. We clearly have more land than we would like today.

If you look at where we're at year-to-date on starts and where we're guiding to relative to starts and the fact that we're currently pursuing over 30 transactions that are all build-to-suits, 12 of which we feel real good about, which is why our guidance is between \$700 to \$800 million. This is a relatively tough environment and for us to get to between \$700 and \$800 million this year, I don't think it's much of a stretch at all to get to a point where we're doing on average about \$1.2 billion. Again, that monetizes \$400 million of land a year,

we'll layer in some sales, and I think we'll get back down to a reasonable land bank in a three-year period of time that Walt referenced.

So I hit on kind of how we get – three years from now – how we get to that number. Long term, again, we think we'll do between \$1 billion and \$1.5 billion. We think this year actually in many ways justifies that. Obviously in the past, we got starts to a number much greater. I think at this point we're looking at spec starts to be a very small amount of what we do, maybe 25%, growing to probably 50%. And there may be an environment where we exceed that. I personally feel pretty good about 50% build-to-suits, 50% spec as a mix long-term. But different market environments will dictate different thoughts on that.

There are markets, as we mentioned – I mean the reason we're chasing 30, what we believe are very real deals – is that there are markets that don't have buildings in certain size ranges available right now. This is totally consistent with past recoveries. Net absorption turns positive, in this case, there's absolutely no development. If somebody needs a 350,000-foot building in a market like Toronto, there just aren't any options for them available. That will drive build-to-suit developments. That will help us get to our \$1 to \$1.5 billion quicker than I think people are assuming. We feel real comfortable with our ability to hit those kinds of numbers, and the market is going in our direction from that perspective.

No new speculative starts and positive net absorption, that's a good combination for us on a go-forward basis.

Bill Sullivan: Do you want to take one more question?

Walt Rakowich: Operator, we'll take one more question.

Operator: OK. Your last question comes from the line of Vincent Chao with Deutsche Bank. Your line is now open.

Vincent Chao: Hey, just a question on dispositions. I mean given where cap rates are today and sort of the attractiveness that you had talked about earlier, what are your thoughts on potentially going over the disposition guidance that you provided

for the year? Is that something you would consider depending on the situation there?

Bill Sullivan: Yes, Vincent, let me address that. I think we'll monitor the markets all the way along. I would say if we had an opportunity to dispose of something that was basically more in the line of non-strategic to our future that would throw us over that hump, that \$1.3 to \$1.5 million, in a good cap rate environment, I think we'd probably do that.

But candidly, the bigger issue with the asset sales is we've done a pretty good job of pushing off our debt maturities, et cetera. And so it's really a use of proceeds question. Substantial sales in excess of our targets might be dilutive to short-term earnings, on the one hand. On the other hand, my sense is that the market would probably applaud that. And so we'll see as we go along and see what opportunities and what needs we have.

Walt Rakowich: No, that's great, Bill. Thanks. And thanks, Vincent, it's a great question.

First of all, let me wrap up by saying, as I said before, we're running a marathon, not a sprint. I do think we're making a lot of great progress, but it's incremental. We hope to have a lot better or additional news for you in the third quarter. So thank you, everybody, and have a great remainder of the summer.

Operator: Thank you for participating in today's ProLogis second quarter earnings conference call.

This conference call will be available for replay beginning today at 1:00 p.m. Eastern Standard Time through 11:59 p.m. Eastern Standard Time on Wednesday, August 4, 2010. To access this replay, you may dial 1-800-642-1687 domestically, or area 706-645-9291 internationally. The replay pass code is 82770831. Again, that replay pass code is 82770831.

Thank you. You may now disconnect.