

PROLOGIS

Moderator: Melissa Marsden
February 3, 2011
9:00 a.m. ET

Operator: Good morning. My name is Beth, and I'll be your conference facilitator today. I would like to welcome everyone to the ProLogis fourth quarter year-end 2010 earnings 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 this session, simply press star one on your telephone keypad. The questions will be taken in the order in which they are received.

This time I would like to turn the conference over to Ms. Melissa Marsden, managing director of investor relations and corporate communications with ProLogis.

Go ahead, ma'am.

Melissa Marsden: Thank you, Beth.

Good morning, everyone. And welcome to our fourth quarter year-end 2010 conference call. By now, you should all have received an e-mail with a link to our supplemental, but if not, it is available on our Web site at www.prologis.com under Investor Relations.

This morning we will 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 Mike Curless, managing director of global investments.

As you know, earlier this week we announced a merger of equals between ProLogis and AMB. A separate press release was issued, and the investor presentation of the latest conference call transcript regarding the proposed transaction was posted to both companies' Web sites.

I would refer you to those documents and the upcoming proxy statement for more specifics about the offering, as the purpose of this call is to report fourth-quarter year-end results and discuss stand-alone guidance for 2011.

Before we begin our prepared remarks, I would like to state that this conference call will contain forward-looking statements under federal securities laws. These statements are based on current expectations, estimates and projections about the market and the industry in which ProLogis operates, as well as management's beliefs and assumptions.

Forward-looking statements are not guarantees of performance, and actual operating results may be affected by a variety of factors. For a list of those factors, please refer to the forward-looking statement notice in our SEC filing.

I would also like to add that our fourth-quarter results press release and supplemental do contain financial measures such as FSO and EBITDA that are non-GAAP measures and in accordance with Reg G, we have provided reconciliation to those measures.

And as we've done in the past, to give a broader range of investors and analysts the opportunity to ask their questions, we will ask you to please limit your questions to one at a time.

Walt, would you please begin?

Walt Rakowich: Thanks, Melissa, and good morning, everyone. As Melissa mentioned, we did announce earlier this week that we are merging with AMB, and in all fairness to Hamid and his team, Bill and I will not be commenting on that merger today.

When I look back at the goals we established at the outset of 2010, many of them seemed pretty lofty given market conditions at that time. However, I'm extremely pleased to say that by the end of the year, we were in line with or had exceeded the majority of these goals.

We exceeded the high end of our target of \$1.5 billion of asset sales and contributions by close to \$250 million. We raised just over \$1 billion of equity. We paid off or refinanced more than \$3 billion of debt. We reached 80 percent leased in our static

completed development portfolio. And we announced more than \$650 million of new development globally.

As recently as a month or so ago, we thought our goal to exceed 90.75 percent leased in our total industrial operating portfolio by year-end was looking like a stretch, too, but we saw a nice surge of activity in December, bringing us to just under 91 percent leased, up 179 basis points from the end of 2009.

Looking at the fourth quarter, this acceleration of activity towards year-end led to significant improvement in operating fundamentals. Leasing activity increased by more than 25 percent over the third quarter to 34 million square feet, bringing our full-year total to over 119 million square feet, just under our peak year of 121 million square feet in 2008.

The leased percentage in our total industrial portfolio increased by more than 100 basis points during the fourth quarter alone, driven in part by strong leasing in our funds and a 500 basis point jump in our completed development leasing.

Rental rates on turnovers declined 10.5 percent, as we continue to roll over leases put in place at the peak of the market three to four years ago. However, customer retention was very strong with both our direct and our fund portfolios at over 87 percent.

Overall, we are feeling pretty good about what we are seeing in our markets. During Q4, customer confidence improved, especially among larger multinational companies. Also Q4 marked the third consecutive quarter of positive gross absorption in top North American logistics markets, reaching 17 million square feet.

Gross absorption for the year was 40 million square feet, which was above our internal estimate. The activity we are seeing in the U.S. is also more broad-based, less spotted than in previous quarters. In the fourth quarter, we signed build-to-suits with Walgreens, Bay Valley Foods, and Bed Bath & Beyond.

In Japan, the ongoing customer focus on achieving greater distribution efficiencies continues to support very strong demand. Our build-to-suit pipeline is increasing, and we saw a substantial amount of leasing in our new developments toward the end of

the year. During the quarter, significant leases were signed with a major Internet retailer and a large consumer electronics company.

In Europe, despite lingering sovereign debt concerns we're also seeing a pickup in customer demand both in leasing increase and build-to-suit proposals. Market rents have generally stabilized as concessions are declining.

In fact, in Europe, we recently signed a 50,000 square meter lease that had no concessions associated with it - no free rent, no TI of any kind. This was the first lease in three years in Europe with no financial concessions. While anecdotal, this demonstrates the direction in which things are heading.

During the quarter in Europe, we signed build-to-suits with Europa Worldwide Group and Schenker Logistics. Both in Europe and North America, we continue to see an increase in investment demand. While transaction volume is strongest for core assets in prime locations, the limited supply of this product is leading to more of this liquidity spilling over in the core plus deals and greater opportunities at the top end of secondary markets.

This trend bodes well for our objective to optimize our portfolio by selling non-core assets in non-strategic markets and redeploying the proceeds into new development in major logistics quarters. We made great progress towards this goal in the fourth quarter, closing our sale of U.S. assets and our interest in three North American property funds, to Blackstone.

In addition, we announced an agreement to sell the Catellus retail and mixed-use assets to TPG. Together, these transactions generate more than \$1.5 billion of gross proceeds.

Looking ahead, we are increasingly optimistic about the recovery in the global industrial real estate market. We look for further occupancy increases, limited new supply, targeted inventory development opportunities in the tightest markets, and moderating pressure on rollover rental rates.

We believe conditions support a level of \$800 million to \$1 billion of new development starts this coming year, and we plan to continue to recycle our capital out of older product or secondary markets to fund this development. This will

improve our geographic diversification and enhance the quality and concentration of our portfolio.

In addition, we will continue to be focused on reducing the percentage of our at-risk assets, including land and unleased development, to roughly 10 percent of our total assets on a long-term basis. And we'll further strengthen our balance sheet as we grow our core income over time.

Let me turn it now over to Bill.

Bill Sullivan: Thanks, Walt.

This morning I plan to cover three aspects of the company's financial position and strategy – number one, Q4 and year-end results; number two, a review of the Q4 strategic initiatives we discussed on our Q3 call; and number three, our guidance for 2011.

For the full year 2010, we generated core FFO, excluding items that affect comparability, of \$0.57 per share, which exceeded the high end of our range by a penny. Additionally, we realized \$0.19 per share in gains, bringing total FFO for the year to \$0.76 per share.

In the fourth quarter, we reported \$0.18 per share of core FFO after adding back \$2.50 per share of items that affect comparability, which I will outline shortly in my update of Q4 strategic initiatives.

The strength in our Q4 core FFO was driven principally by the timing of leasing and development management fees, lower than expected land holding costs, and lower than budgeted property taxes in certain markets.

Total FFO for the quarter was \$0.25 per share, including \$0.07 per share in gains derived primarily from the recoupment of discounts on 2009 contributions to our PEP2 fund.

Turning to the Q4 strategic initiatives, as noted on page 2.4 of the supplemental, during the quarter, we recorded approximately \$1.4 billion, or \$2.56 per share, in charges which were principally related to three strategic positioning initiatives that I

discussed on the third quarter call, as well as a write-off of substantially all of the goodwill on the books.

Of the \$1.4 billion in charges, \$1.26 billion were non-cash charges, while \$157 million were cash related. A breakdown of these is as follows.

First, we took a \$368 million non-cash write down of goodwill, principally as a result of implementing our new land and non-core asset sales strategy.

Second, we took a \$686 million non-cash impairment on land targeted for sale. This is consistent with our strategic decision to more aggressively pursue land sales in target locations and the resulting requirement to mark this land to market.

Third, as announced in December, we entered into a definitive agreement with TPG to sell the majority of our non-core retail, mixed-use and ground lease assets obtained in our purchase of Catellus in 2005. The transaction is expected to close at the end of February. The associated non-cash impairment of assets to be sold to TPG, other Q4 non-land asset sales and other fund impairments was \$188 million.

Finally, we made significant progress on our debt and derivative restructuring initiatives. In Q4, we tendered for \$1.3 billion of debt and purchased \$300 million of convertible bonds through the open market. This greatly smoothed our maturities stack and was our planned use of proceeds from our asset sales to Blackstone and the equity offering. The tender resulted in \$138 million of cash charges and \$15 million of non-cash charges from the early extinguishment of debt.

In December, the company closed out three derivative positions inside two of our funds, which resulted in cash charges of \$19 million related to our share of the derivative losses recognized by the funds. Also in December, we reduced the size of our global line of credit from \$2.25 to \$1.6 billion, which resulted in a non-cash charge of \$7 million from the write-off of previously paid transaction costs.

Now turning to 2011 guidance, we expect 2011 core FFO to be in a range of \$0.62 to \$0.66 per share, with an additional \$0.02 to \$0.04 per share from gains, bringing the range of total FFO for the year to \$0.64 to \$0.70 per share. On a GAAP basis, we expect to report a net loss for 2011 ranging from \$0.15 to \$0.20 per share.

In our press release, we outlined the business drivers that support our 2011 guidance, which I will quickly review for those who don't have that summary readily available.

From an occupancy standpoint, we expect to see a 1.5 to 2 percent increase in overall lease percentage within the combined direct-owned and investment management portfolios.

We anticipate starting \$800 million to \$1 billion of new development, utilizing \$200 to \$215 million of our land. This development, combined with land sales of approximately \$200 million, is expected to bring total land monetization to \$400 to \$450 million.

We expect building dispositions and contributions of \$650 to \$750 million, which includes the pending sale to TPG. We expect to recognize two sources of income from our property funds and other unconsolidated investees – number one, \$170 to \$180 million in our share of FFO and number two, \$110 to \$120 million in asset management fees.

Same store NOI, which we report in the aggregate for both direct and fund properties, is expected to increase by 1 to 3 percent, reflecting increased occupancy net of rent roll downs.

On the expense side, gross G&A is expected to be down roughly 4 percent from the 2010 level, due principally to asset sales and other efficiency efforts. Amounts reported as rental and investment management expenses are expected to be in line with 2010 levels, while capitalized G&A is expected to increase by 15 percent due to greater development activity.

Please note that our 2011 guidance does not account for either the restructuring charges associated with the Catellus sale or any restructuring expenses associated with the Blackstone sale. These costs are expected to be incurred in Q1 and Q2 of this year and will be disclosed under a separate line item in our 2011 reporting.

One final comment on 2011 guidance. While we don't provide quarterly FFO estimates, we expect to see lower FFO per share in Q1 as a result of the loss of the Blackstone NOI, some of the Catellus NOI, and the full quarter effect on the share count. However, we expect FFO to gradually increase as the year progresses from the

benefit of further development portfolio leasing and occupancy, new build-to-suit developments coming on line, and higher average occupancies in both the wholly-owned and funded portfolio.

Now, we will open it up for questions.

Operator: Our question and answer session will be conducted electronically. If you would like to ask a question of our speakers, please press star key followed by the digit one on your touch-tone phone. 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 Sri Nagarajan, FBR Capital Markets. Your line is open.

Sri Nagarajan: Thank you.

With regards to your 2011 guidance, obviously \$800 million to \$1 billion of development starts, could you give us a sense of the idea of the markets and timing? And I'm presuming it's mostly Europe and Asia here, and mostly weighted toward the second half of 2011. And, you know, just going by your remarks, it appears that there appears to be some impact on 2011 FFO guidance due to 2011 starts in the other words, would you say?

Walt Rakowich: Yeah, Sri, this is Walt. Let me just answer that by saying you're absolutely right.

We're hopeful that we can do somewhere in the neighborhood of \$100 million, potentially as much as \$150 million, in North America this year. And then I'd say the balance of it will be Asia and Europe, probably split relatively close, 50-50, between Asia and Europe. So we still expect to see, you know, 80 percent – 75 percent to 80 percent of the development to be abroad.

And as for the weighting of that development, I wouldn't really say that it's back end. I think it will be fairly ratable throughout the year. Some of that depends on leasing in Japan, for example, and when we might start the next building there. And as you know, Japan can be very chunky in terms of its size, but from this – from our perspective right now, I would say it would be fairly ratable throughout the year.

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

Chris Caton: Hi, on the same line of questioning, I wanted to follow up on land monetization. Some of it's going to development, but \$200 million circled to be sold. Can you tell us a little about the nature of that land? When do you – who's – I guess, who is the buyer, and what type of buyer do you think would be interested in that? What would be the timeline of ultimately product being developed on that?

Walt Rakowich: Well, I think you're specifically, Chris, talking about the land sales

Chris Caton: Yes.

Walt Rakowich: And, you know, it's very interesting, we – the other day we had investment committee for Europe, and we literally looked at five land sales in Europe. And all five of them were to users that are looking to either control land, they have a building next door to it, or they want a building built on it either now or eventually. So I'd say that what we – what we see is one of two things. Either governmental agencies – and we do have a few pieces of land that we're looking at in the United States where governmental agencies that are looking hard at them – either they're close to freeways, and they are looking to condemn it, or for whatever reason they want to change the use for something that the city needs it for. But I'd say the preponderance of what we expect to see this year would be user owners that would be looking to buy land.

Now, one thing I will say that, you know, we sort of do one of these around the horn calls with all of our people in preparation for our earnings calls. And we had that call last week, and it's amazing how many developers now, or potential developers, are sniffing.

And not to say that they're going to, you know, plunk down cash – and I wouldn't expect that you'll see a lot of that in the first half of the year – but I think as the year unfolds, if we continue to see what we are seeing now, and that is real strengthening in the overall industrial market, I wouldn't be surprised to see some people in the latter part of the year, developers that would be interested in this land. And those would be choices that we'll have to make on a piece-by-piece basis.

That would also probably mean some other developers looking at it that potentially we could or we should develop it and in the case of non-strategic parcels, hopefully, sign up some build-to-suits, build them and sell them over time. So we'll just have to play that by ear.

Right now, we think the \$200 million in terms of what we're going to sell is very achievable and, of course, the \$200 to \$250 million of that, which we think you'd put into development also is very, very achievable.

Bill, I don't know if you want to add anything to that?

Bill Sullivan: I think that you hit it.

Walt Rakowich: OK.

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

Sloan Bohlen: Hi, good morning. A similar question just on asset sales and land sales. First, to whatever degree you can comment, to what degree is there variability around those estimates or those projections you have for land sales outside of what you've laid out here or asset sales outside of the Catellus deal that's already been announced?

And then, second to that, if you could just provide some general commentary on what you have out in the market and where pricing has come over the last three months.

Bill Sullivan: Hi, Sloan. It's Bill. Let me comment on that.

You know, if you look, Walt just talked about the land sale side of that, so I don't think we need to cover it. But if you look at our guidance relative to building sales, you know, we are not going to be a big seller of properties this year.

We don't particularly think the capital is required in 2011. We'll look more strongly at that as the year, you know, in the latter part of the year and into 2012. But if you look at a target call at \$650 to \$750 million, Catellus represents about \$500 million of that.

We also have two properties under development, one of which is committed to the PEP2 fund. It's a build-to-suit that they will buy upon completion. And we have a

Japan build-to-suit under development that is pre-committed to the user to buy. And those two probably total \$80 to \$90 million. And so of the \$650 to \$750 million target, about \$600 million of that is baked in.

And so the rest is really just sort of a natural culling of the portfolio, where we're going to get some opportunities, unidentified as yet, where a user will approach us, or we'll choose to sell out of the market based on sort of market dynamics.

Walt Rakowich: Yes. And, Sloan, one thing I would add to that in terms of the market pricing. So far the – you know, the land deals that you're looking at have been either priced – have been priced very, very close to the impaired values. Even though there may be some that are a little over, there may be some that are a little under, but I think we've done a pretty doggone good job of identifying the impaired values, what they should be. So far, so good.

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

Ki Bin Kim: Thank you.

So a two-part question. One is just following up on the previous line of thought. Like you've said, \$600 million of disposition guidance seems like it's all baked in already. And I compare that to what you did in 2011 of \$1.75 billion. It seems pretty light. So I guess my question is, why so light? And how much of that has to do with, you know, kind of the pending merger?

And also the last – second part of my question is how much equity capacity do you have left in your funds?

Bill Sullivan: Well, the funds, at this point, Ki, are effectively fully invested. There is no fund that has technically remaining equity capacity, although within PEP2 the capital was called and is available for investment on the property that they're buying from us upon completion.

Having said that, I believe that if we chose over time to open up to new investment that opportunity would be well-received. And there are a number of funds that would like to potentially pursue acquisition. So we're in pretty good shape there.

Relative to the overall asset sales being relatively light, we're in a pretty good position from a capital standpoint. We're going to generate a fair amount of proceeds out of the Catellus sale and the land dispositions and that is sufficient to fund our development activity this year in a debt-neutral manner.

And so there is no urgency to sell incremental assets, although as time progresses, we will continue our strategy of pruning some of the non-core, non-strategic markets and generate proceeds for future capital requirements.

Walt Rakowich: Yes. And, Ki Bin, this is Walt. Let me just – I want to kind of take you through the math, too, associated with why not \$1.75 billion, which is what we did last year.

I mean, first of all, we have very little debt maturities on this year. And second of all, let's look at what we're talking about spending money on. Let's assume that we do \$800 million to \$1 billion of new development starts, OK? And let's assume that there are \$200 to \$250 million of land that are in that \$800 million to \$1 billion, so that the capital needs to be the developments would be – call it \$600 to \$750 million.

And if you take a half-year convention on that at best, and it may be more or like 30 or 40 percent, if you assume it takes all year because you're going to have some fourth quarter starts that you have no capital spend whatsoever. But even on a half-year convention, you'd need somewhere in the neighborhood of \$300 to \$450 million. We're not really planning much in the way of acquisitions. So it's really sized to the capital needs of the company at this point. So with very little in debt maturities and, frankly, robust development starts, but still not needing to spend a tremendous amount of money this year there's no real reason to dispose off a plethora of assets over and beyond the sale, which we've already agreed to, that's the TPG sale, which will create \$500 million of asset sales.

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

Michael Bilerman: Thank you. Walt, you talked on Monday that the market had spoken in terms of the valuation between both AMB and PLD in terms of exchange ratio and that's why you felt comfortable without having a “premium deal.”

But I guess, looking at the results which came in ahead of your expectations and what looks like a pretty positive outlook for 2011, as you have the rebound in fundamentals, your development is being at least upped, you're monetizing more non-core assets, the balance sheet has been cleaned up, I guess, how do you sort of sit back now and still accept a no premium deal – and sort of can you think about a go-it-alone strategy versus a merger strategy and how all that sort of plays in your mind?

Walt Rakowich: You know, Michael, unfortunately, as we said in the beginning, the purpose of the call is not to focus on the merger. And so, unfortunately, we're not going to answer any questions regarding valuations or anything like that regarding the merger, so I'm sorry about that.

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

Jamie Feldman: Thank you.

I have a two-part question focusing on fundamentals primarily in North America. The first is just trying to get my head around the view over the last year so that, you know, new development starts would require higher rents. So can you just kind of talk us through what's really happening out there in terms of why build-to-suits are working, even though we're not really seeing a rent spike.

And then, secondly, I know our firm's view is that kind of economic growth from here really be driven by large corporate users with capital to put to work on their balance sheets and a lot of capital investment, as opposed to companies that are focused on the consumer and retail. So can you also talk a little bit about what you're seeing in terms of leasing activity? It sounds like the leases you announced – the build-to-suits you announced are really more retail focused than kind of consumer – or than business capital focused.

Walt Rakowich: Yes, that's a good question, Jamie. I'd say, first of all, the first part of your question regarding rent – or, excuse me, regarding why build-to-suits are working at the rents in place, I mean, for the most – well, you've got to understand a couple of things.

One, obviously, cap rates have come down, so rates of return have also come down. The second thing is that construction costs have also come down materially. It's

amazing to look at what it costs to build a building today versus what it cost in, call it 2007 and 2008.

And I'd say by and large construction costs are probably down as much as 20 to 25 percent. We all know land prices are down by at least that much as well. So the overall replacement cost is lower. But notwithstanding that, the rents in place still need to come up.

And I would say that the build-to-suits that are being signed today are somewhere in the neighborhood of 10 to 15 percent, not 30 percent, which is what we expected, probably 10 to 15 percent premiums to where market rents are today.

And why are users doing that? They're doing it because the supply of space has tightened enough in whatever market that they're looking in that they just don't really have any other choices, unless they want to take a secondary building. And in many of these cases, these larger users just don't want to take, you know, a building that's 30 years old, which isn't to say that there's not some user that would, but they don't want to. So they're willing to pay that extra cost for efficiencies and flexibility and having the location and the asset that they really want.

In terms of what we're seeing out there, I think, you know, you would think that your intuition is right in terms of large corporate users that are business capital focused, and it's not to say that those people won't be in the market, but what we've seen a lot of it, at least over the last year, have been, believe it or not, consumer-related companies, food companies, and retailers. I mean, those are the people that really have driven our build-to-suit business, and I would say Internet retailers, as well as other retailers.

So those people have really driven our business in the last year, and it's surprising. I mean, I do think it's important to look at consumption in the fourth quarter, which was up materially and is now at levels that are not too dissimilar from where it was in '06 and '07.

So even though people are saying the consumer is not spending, that's not what we're seeing in the field. And so those are the people that we're doing business with at least today.

- Bill Sullivan: I would also add a point or two, Jamie, rents still need to recover in many, many, many markets, but there are four, five or six markets or submarkets around North America that will absolutely be ripe for more inventory type development through 2011 and maybe 2012.
- Mike Curless: Those would be markets like Toronto, Washington, D.C. in the Dulles submarket, Houston in the airport submarket, and parts of Los Angeles are certainly showing early signs of market conditions that we're heavily underwriting right now that could warrant inventory construction in the not-too-distant future.
- Operator: Your next question comes from the line of Ross Nussbaum, UBS. Your line is open.
- Ross Nussbaum: Good morning, everyone. A question on asset values and cap rates. What are you guys seeing as we emerge into a new year? We've got improving fundamentals, but we also have some more product on the market along with higher interest rates. What's your view of further cap rate compression from here? Do you think we've seen the majority of it, or is there more to come?
- Walt Rakowich: Ross, I wish I had that crystal ball. You know, I think it really is a function of where you think interest rates are going. I mean, I really do. And cap rates have really compressed, obviously, because interest rates have been so low, but also because people believe that rents are going to increase materially overtime.
- And so I'm not really sure I could – I could speak to cap rates, but I will be – I will tell you that I believe strongly that rents are going to materially increase in the course of the next two to, say, three years. And I think there's a lot of, you know, empirical evidence that points to that. We're already seeing some markets where rents are jumping.
- It's very interesting to see how rapidly they're beginning to jump in areas like Los Angeles and Inland Empire. So I do think that that will happen, but as it relates – you know, and you may see a situation where rents actually go up materially and cap rates go up as well.
- It's just so hard to say. There are so many moving pieces. So I'm not sure I'm the guy to comment on where cap rates are going to go, but I do think rental values are going to substantially increase over the next two to three years.

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

Brendan Maiorana: Thanks.

Good morning. It's a question for Bill on the guidance. You guys gave us pretty good detail in terms of the adjustment to capitalized G&A that we can expect for 2011. Can you provide kind of a comparable level of what the impact may be from higher capitalized interest costs in 2011 and how that may help your reported FFO numbers?

Bill Sullivan: Yes, I think we'll see a similar increase in capitalized interest for 2011. It's all virtually directly related to the increased size of the development portfolio. And, you know, obviously, other than the development portfolio, 2010 was a relatively stable year in terms of what may have been capitalized on the – on the completed, but on the not yet stabilized portfolio. So I think that will be in line, as well.

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

John Guinee: Hi. Quick question. What's going on in Korea? It looks like you moved some things to assets held for sale. And then second is when do you think, Walt, all of your mark-to-market rent roll downs burn off? Is that a 2012 or 2013 event?

Walt Rakowich: Yes, do you want me to hit both, Bill? Do you want to hit Korea?

Bill Sullivan: I'm happy, Walt, to have you hit Korea?

Walt Rakowich: OK. I'll hit both. John, I think first of all, as relates to Korea, we've been disappointed in what we have seen there in the course of the last three to four years. That is, we really believed that what would materialize in Korea is that larger users, as we've seen literally every place in the world, larger users would move away from ownership and more towards leasing, and that the leasing market was poised to grow.

And what we're seeing after three or four years is it's just not happening. Large users are staying home. They are occupying their own buildings that they prefer to own. And the overall market is really a small to mid-company user market, which is really not akin to our global customer base. Frankly, there's not a lot we can add to that in

terms of synergies, and there is not a lot that it really does for our business. So we have made the decision that we will be selling our Korea operation. We hope to do that over the course of the next 12 to 18 months. And in doing that, we have taken a charge to reflect what we think the ongoing true value is of the operation.

And unfortunately, you know, cap rates there rose, just like they rose every place else in the world, and they have not come back to where they were completely when most of those investments were made.

As it relates to the rent roll downs, I would just say that we expect to see negative rental rate growth this year, hopefully, better than what we saw this year. Obviously, in the beginning of this year, we saw, you know, 15 percent – 12 to 15 percent numbers. Now we're seeing 8 to 10 percent numbers – 8 in the third quarter, 10 this quarter.

I would hope that next year, and really expect that next year, that number will be in single digits as opposed to double digits, but I don't think it will go to zero. I think there's a very good chance, based on what we're seeing in the market, if rental rates can rise to the extent that we think that they will, that by 2012, that could almost get wiped out to nothing. In other words, it could be a very flat and maybe even a positive situation in certain markets. We'll have to wait and see, but based on what we're seeing in the market, I would, if I were a betting man, that's how I would look at 2012.

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

Steve Frankel: Good morning and thank you, guys. I'd like to talk about the same store performance in the portfolio during the period, where NOI fell by about 5.5 percent, which was worse than your guys' numbers in the third quarter. Did the sale to Blackstone assets meaningfully change your performance?

And what's your occupancy now on the adjusted portfolio? How does your guidance for next year reflect what you guys call the adjusted portfolio versus the combined portfolio with the completed development portfolio?

Bill Sullivan: Well, Steve, let me take the first part of that. I think the Blackstone assets are out of the data trend on the direct-owned properties. And so what you see as leased versus occupied percentage on page 3.1 does not include the Blackstone portfolio.

The other thing, you know, relative to combining the completed development portfolio with what used to be just the core portfolio, you know, the interesting thing is, you know, and I suspect people would want to say, hey, I want to continue to watch the lease-up of that portfolio and see how you do on that, just in the same way that we split it out this year.

But for all intents and purposes, the U.S. piece of that completed development portfolio is very well leased, and that was somewhere around 90 percent at year-end. The Japan portfolio of that is pretty well leased, and we expect that that leasing could get up to that 90 percent level shortly. And so that becomes basically stabilized.

If you look at Europe, virtually 100 percent of the European portfolio is that completed development portfolio. In other words, we didn't own a substantial amount of European assets on the balance sheet. And so looking forward, if you sort of want to gauge how you're doing on leasing up the completed development portfolio, you just monitor Europe. The rest of it is effectively hitting that stabilized level. Is there another part to your question?

Walt Rakowich: I don't – I don't think so. I think you hit them.

Bill Sullivan: Hopefully, that answers your question, Steve.

Walt Rakowich: And, Steve, if that did not answer your question, we're happy to speak with you further off-line about it.

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

Michael Mueller: Thanks.

Hi. I'm not trying to sneak two questions in here, but first, Bill, when you were talking about core FFO for the quarter of \$0.18, you mentioned there were couple of one-time or timing related items that were in there.

First, I was wondering, if you can just kind of walk through and put some numbers around those, so if we adjust for those items, what happens to that \$0.18?

And then secondly, when we're looking at the core NOI outlook of, I think it's 1 to 3 percent, can you just walk through some of the drivers getting behind there? Because it looks like you're talking about occupancy going up 150 to 200 basis points. You're still rolling rents down, at least right now, at about 10 percent. So what are the other factors driving that 1 to 3 percent increase?

Bill Sullivan: Walt, I'll let you handle the 1 to 3 percent. On the fourth quarter, you know, we had a pretty good quarter in terms of booking development management fees. And again, that business, I think will be fairly consistent on a year-over-year basis, but the quarter-over-quarter comparison of that is somewhat lumpy. And so that was one of the key drivers.

Again, on a comparability standpoint, we had six weeks or so worth of Blackstone in there. We won't have that in Q1. And so those are some of the drivers on the disconnect between the Q4 and Q1 aspect of what we expect.

Walt Rakowich: Yes Mike let me, and I know it is probably a little confusing on the NOI so I'm glad you raised the question, it is a good one. First of all if you, if you think about rental declines in the single digits next year and we're hopeful for that but let's say that we're in the, I don't know, 7 to 10 percent range and hopefully we can outperform that and you take roughly 15 percent of your portfolio that turns that would create, if you will, negative 1 to 1½ percent type rental growth right in and of itself. Then you would say the occupancy eclipses that somewhat, that 1½ to 2, but not completely.

The difference is that when we refer to leasing going up from 1½ to 2 percent that is leasing and not occupancy. Occupancies will actually rise substantially more than that and the reason for that is there's a big difference in our development portfolio from what is leased and what is occupied, OK?

So the occupied part of it, which is really a catch up, the leases, think about the leases that we've already done right now that aren't yet occupied and so the actual occupancy percentage will be up substantially more than 1½ to 2 percent next year, OK? And that significantly eclipses the rental declines. And so that's why your same store NOI is positive 1 to positive 3 percent as a result of it.

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

Steve Sakwa: Hi Walt I just wanted to circle back to the comment about kind of construction costs coming down and rents only being about 10 to 15 percent higher on the new build-to-suits and I guess you and AMB have both talked about this kind of rent spike that would come and that there would be very limited construction because rent need to move much higher before you got to replacement cost.

So I guess I'm just trying to reconcile sort of what we're seeing in the marketplace and assuming there is no change to building costs over the next year or two, doesn't that just mean that spec development will come sooner and that kind of limits the upside on rent growth that you might see over the next three to four years?

Walt Rakowich: You know Steve first of all I'm sorry your name got butchered the way it did, but it wasn't of my doing. Yes you would think intuitively what you just said is right expect for the fact that I don't believe that construction costs will stay where they are. I think that they are artificially low right now and they're low because there are a lot of people that are still out of work.

And I think what we're going to see is the market Look, if the market doesn't come back all bets are off but then again we won't see speculative development under that scenario at all. But if the market does come back, I think what's going to happen is your going to find construction costs will inch up, and I would be surprised that in a one to two year period they inch up to the same level that they were in 2007.

And I think that that will create somewhat of a barrier to development. In other words, I think there will be some speculative buildings built, but I think people will begin to see costs moving away from them and as a result of that probably take a little bit less risk than you might think.

But that said I want to be balanced about the comment. We do believe that we will see some speculative development next year as Mike Curless was just talking about. I think it will be in markets that are already very, very tight and can use speculative buildings. And there are four or five of those markets right now that could probably use it.

So you know you shouldn't be surprised to see it on one hand but I do think the construction cost increase will create a little bit of a barrier to the flood gates opening.

Operator: Your next question comes from the line of Steven Benyik at Jefferies, your line is open.

Steven Benyik: Sure thanks very much just two quick ones – first curious if the 2011 guidance assumptions you know would be at all different if it were not sort for the merger agreement particularly on the asset sale and G&A side...(line disconnected)

Operator: Your next.

Walt Rakowich: Well hang on one second it sounds like he got cut off but we can, I think we can answer that (inaudible).

Operator: All right.

Bill Sullivan: Well I think the simple answer is, as we said before we're not going to talk about the merger side of the equation, but this is our guidance for 2011. This reflects the bottoms up budgeting process we go through intently in Q4 and is what as a standalone company we believe can and will take place in 2011.

I'm sorry you got cut off, I don't know what happened.

Walt Rakowich: Operator? You still on?

Operator: Yes, your next question comes from the line of John Vojticek of RREEF, your line is open.

John Vojticek: Good morning Walt.

Walt Rakowich: Good morning John.

John Vojticek: First – I guess I'm a little disappointed that ProLogis can't talk about its reasons for entering the merger you know without talking about the merger more broadly this morning, (so I) was a little disappointed there.

But I did want to clarify the break up fee, would the break up fee have to be paid if your shareholders do not vote in favor of the transaction?

Walt Rakowich: John, unfortunately you know as we said the purpose of the call is not to talk about the merger so we can't get into that on the call.

John Vojticek: OK.

Walt Rakowich: So we won't be, we won't be answering it on the call.

John Vojticek: OK, appreciate it.

Walt Rakowich: No problem.

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

Sri Nagarajan: OK, definitely nothing merger-related here. I think Walt you remarked on concessions burning off. Could you give us some idea of how concessions have dropped in a year? For me it's rather surprising given that specifically U.S. vacancies are rather still high. It's just a question of the markets themselves, the coastals and inland markets as you talked about them, or is it just non-U.S. or new properties in general?

Walt Rakowich: Well I guess, let me answer that by saying when you say the vacancies are high, there's all kinds of different data points that are out there. I mean if you look at CBRE they say the industrial markets are 14 percent vacant and then if you look at the data that we produced last quarter and will produce, we think it's now under 10 percent.

I saw someone else at Colliers recently said that they thought the bulk of the industrial market was 10.7 percent vacant. Look I think if you cut through it, the bulk industrial market its tenish percent vacant at this point in time not 14. That's not too far away from what we see historically in terms of frictional vacancy.

The bulk industrial market historically if you look at 30 years of data, and you cut out all of the, you know sort of the higher finished product and the manufacturing space, I mean the highest we've seen the industrial market get in total is somewhere in the neighborhood of 93 percent leased. Now we own better product than that and we expect to outperform that but the markets only about call it three percent away from if

you will frictional – at the highest point leased. If you look at an average of '91, '92 its not that much further away from that.

So I think it's really, you know I don't want you to picture this market just as you know 10 or 15 choices for every one space out there. It's just not the case. It is leasing up. So what you see in certain submarkets that have no vacancies or very little vacancies is just a lack of choice. And in those submarkets the landlords are smart enough to know that they shouldn't be giving away concessions.

So when we give you the anecdotal information Sri, some of it is due to the fact that we know that there are certain sub markets where that anecdotal information applies and it doesn't apply across the board but it certainly applies in certain submarkets, certain markets that are getting really tight.

Operator: Your next question comes from the line of Steve Benyik from Jefferies, your line is open.

Steve Benyik: Sure thanks again, this question is I guess more related to the fund. If you take a look at the \$120 dollar debt maturity for North American Industrial Fund III in 2011 just wondering what the latest plans are there for that given the high leverage and I guess the same question on North America Industrial Fund II and the \$164 million of debt maturing in 2012.

Bill Sullivan: We're in discussions with the lenders on those and we'll look at refinancing or you know the reducing the debt but in the grand scheme of things those aren't you know wildly big maturities. I would say in North American Fund III that you know the interesting thing is Lehman is sort of flush with cash so if we potentially had to make a small injection we might do that.

On the other hand, if the leverage is too high, we'll go a different direction but we'll take a look at that as they, as they come up through the year.

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

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

Michael Bilerman): Great, Walt just in terms of the occupancy versus lease just doing some math within the supplemental it would seem that the occupancy is about 100 basis points, give or take, below the lease percentage. I think you talked about how that gap would narrow over the course of the year as the development leasing takes occupancy. So I was wondering if you can just sort of tell us what that spread will narrow to by the end of the year?

It looks like your about 91 percent leased, about 90 percent occupied as of today. And then looking at that static development portfolio, that 80 percent lease that I think you commented you know the big hole is in Europe. I guess really what is it going to take in terms of a leasing perspective in that space which you know obviously that's I think your sort of at the tail end there of what's been more difficult to lease. So I'm just trying to understand the dynamics between all the various pieces.

Walt Rakowich: OK, Bill you want to answer this?

Bill Sullivan: Yes I think you know Michael as you sort of look at the historical relationship I would say on the stabilized portfolio you're probably going to see about a 30 to 40 basis point differential on a relatively consistent basis between leased and occupied. If you look at page 3.1, you sort of see that in the North America portfolio. And that's just a reflection of renewing leases and having the occupancy lag the execution of the lease term. But that sort of differential is quasi permanent.

On the European side if you look, we're about 750 basis points below on occupancy versus lease. Obviously, that occupancy will catch up, and we would expect in the grand scheme of things that particular relationship to close to that sort of 30 to 45 basis point differential by the end of the year. However, we will lease up more and you'll see the lag in that as well.

On Europe, I think we started on, and I apologize I don't have the number in front of me, but I think we started the year at about 45 percent leased and you know were close to 70 percent leased so we did a real good job in Europe this year. Things in Europe have gotten pretty active and particularly so in Central and Eastern Europe.

You know the U.K. we're pretty well leased up and that's the only part of Europe candidly that has sort of taken a pause a bit in the fourth quarter and so you know we have good expectations for continued lease up in Europe.

But relative to the relationship on the, on the leasing to occupancy once you get to the stabilized level your probably going to have that 30 to 45 basis points differential but on the, on the completed development portfolio this stuff should catch up by the end of the year.

Walt Rakowich: Yes Michael, I would add two points to that. One is even though your looking at occupancy versus lease percentage, which is weighted on a square footage basis. Europe and Asia are clearly weighted higher on a dollar value basis than the U.S. and that is where the differential is between occupancy and lease percentage. So you've got to focus on that.

Bill's right on the 30 to 40 basis points once it catches up. The second part of your question relates to what do you need to do? I mean it's very clear that the leasing really needs to be done in Central Europe, in Southern Europe but in particular Central Europe and I would tell you that based on our calls with all of our regional people that took place last week, if they're – I would say the most optimism out of all four regions, and they're all optimistic, is in Central Europe.

And it's the, its the market with the least amount of square footage so it was about 83 or 84 percent leased but it doesn't take but you know 10 or 15 really big leases throughout Central Europe to knock that thing into the 90s.

And so there's been a significant amount of activity there and our people are very optimistic in Central Europe, more optimistic that I've heard them in really two years. So I think, I think we feel pretty good about the overall portfolio and if you look at the static portfolio at the end of the year at 80 percent I can't imagine that it wouldn't be 90 plus percent leased next year as a subset of the overall portfolio.

Operator: OK. Your next question comes from the line of Vincent Ko at Deutsche Bank, your line is open.

- Vincent Ko: Hi everyone, just a question on the increased demand your seeing through the core plus and sort of the secondary markets, the top quality stuff there, can you just comment on what kind of CAP rate on that type of product and also within the secondary markets you know are there particular ones that are seeing more demand than others?
- Mike Curless: Sure, in general it seems like CAP rates have flattened and stabilized in the United Kingdom and Japan and we're seeing some market compression in all corners of the U.S., and the balance of Europe, Central Europe and Western Europe in particular.
- Walt Rakowich You know and I guess I would add it really just depends on the secondary market that you're talking about. So I think unfortunately a question that is hard to answer because it's a market-by-market thing. But I would say in general the secondary markets six months ago had literally no activity and now there's a pretty significant amount of activity there. It'd be hard for me to say where CAP rates have moved to secondary markets and make kind of a general statement but we're optimistic that we're going to see a heck of a lot more transactions being done there in the course of the next year or two.
- Bill Sullivan: We have also gotten indications that there is probably a lot more volume coming in the secondary market space, which is going to obviously increase the transparency of capital flows and the likelihood is that in and of itself is going to act to compress CAP rates in some of those markets.
- Thank you, Operator, I think we can wrap up.
- Operator: This concludes today's conference call, you may now disconnect. Thank you.

END