

ProLogis European Properties investment in new ProLogis private equity fund
Moderator: Jennifer van der Eem
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16:00 CET

Operator: Good afternoon, my name is Bertrand and I will be your conference facilitator today. I would like to welcome everyone to ProLogis European Properties conference call. Today's call is being recorded. All now are currently in a listen-only mode to prevent any background noise. The call today will be hosted by Robert Watson, Chief Executive Officer. After the presentation, there will be a question and answer session. If you wish to ask a question during the session, please press *1 on your telephone keypad. The questions will be taken in the order in which they are received. At this time I would like to turn the conference over to Jennifer van der Eem, Vice President of investor relations with ProLogis European Properties. Please go ahead.

Jennifer van der Eem: Thank you, Bertrand. Before we get underway, I would like to state that that this conference call will contain forward looking statements. These statements are based on current expectations, estimates and projections about the market and the industry, in which ProLogis European Properties operate, 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. Robert, please begin.

Robert Watson: Thank you, Jennifer, and good afternoon everyone. We are excited to be able to brief you on our agreed €900 million investment in ProLogis European Properties Fund II. This agreement to invest 30% of the equity in the new fund is a milestone in the evolution of ProLogis European Properties and underpins our growth strategy for the next three years. It is expected that the Fund will have total capital, including 50% - 60% leverage, of between €6 billion and €7.5 billion over the next three years. The Fund will use this capital to invest in ProLogis' newly developed and stabilised properties in Europe and may also acquire third party buildings that meet the Fund's criteria.

At the end of June, ProLogis' existing European pipeline contained \$3 billion of properties either under construction or recently completed and an extensive land bank of some 6,000 acres. This development pipeline, including the land as developed, will more than satisfy the Fund's investment objectives. The Fund is structured as an open-ended infinite life real estate investment fund registered as the Luxembourg FCP. The Fund is externally managed by a subsidiary of ProLogis and as such will have access to the best in class operator and global leader in the industrial property sector.

ProLogis has a team of some 350 associated based throughout Europe with the local market expertise, customer relationships and exemplary track record of customer service to ensure optimal performance.

The properties acquired by the Fund will be consistent with ProLogis European Properties' current high quality portfolio. Indeed, we expect a number of the assets to be adjacent to our directly owned facilities or within existing ProLogis Parks owned by ProLogis European Properties. As such, they will complement our existing portfolio, increase our critical mass in target markets, and we believe it will therefore be accretive to overall results.

Buildings will be contributed to the Fund on a current third party appraisal basis. Prior to contribution, they must meet certain stabilisation criteria. To avoid cherry picking, all stabilised assets must be contributed by ProLogis and the Fund is obligated to accept them. The stabilisation criteria include that the building of portfolio buildings must be within the target market in Europe, all construction is substantially completed and these buildings must be substantially let for a lease term of at least three years. In addition, there are geographical and minimum yield levels which must be met.

We anticipate that ProLogis will contribute an initial portfolio in September 2007. This portfolio was expected to be valued at approximately €600 million and is likely to comprise buildings developed by ProLogis and those acquired by them as part of the Parkridge acquisition. It is anticipated that this portfolio will be spread across many of our target markets. We will provide more portfolio details as and when they are contributed to the Fund.

Our €900 million investment will be made over a two and a half to three year period, with the first instalment of some €90 million to be made in September 2007. These investments are likely to be funded through a combination of debt or proceeds of any future direct property disposals. We expect our investment to provide on average a 6.5% to 7% income return per annum. In terms of disclosure, we plan to show our investment in the Fund and subsequent distribution as separate lines on a balance sheet and income statement respectively. Additionally, we will provide property information as if we owned the entire Fund so that property performance has high visibility.

As PEPR only pays ProLogis an asset management fee, based on direct real estate owned, our investment is not subject to an asset management fee within PEPR and our proportion of any incentive fee payable to ProLogis from the Fund's performance will be credited against any incentive fee owed to ProLogis from our performance. This arrangement ensures that there are no fees on fees paid by ProLogis European Properties.

In summary, at our IPO, we set out a strategy to grow ProLogis European Properties through investment in new ProLogis private equity funds. We are delighted to implement this target growth plan and continue to believe that this is a unique opportunity for us to invest indirectly on a Pan-European basis in environmentally sound state of the art facilities, managed and developed by renowned leaders in the industrial real estate sectors.

We have always operated the platform at over 95% occupied; 97.1% occupied today. A key component of this operational success is our ability to go with our customers and continue to provide them with the facilities they require. This agreement continues our ability to serve our world-class customers effectively as they continue to grow their businesses.

2007 has been a period of accomplishment for PEPR. We have acquired over €220 million of assets directly, attained an A3 investment grade rating from Moody's, recycled €397 million of capital through the Garonor portfolio sale, and now have joined with many world-class institutional investors along with ProLogis to form this Fund in which to grow our Pan-European platform. We look forward to giving you more detail on our progress as appropriate in the near future. With that I would like to open up the call for questions.

Operator: Our question and answer session will be conducted electronically. If you would like to ask a question to our speakers, please press *1 on your touch tone telephone. Once again, that is *1 to ask a question. We will pause for just a moment to sample the hold. Our first question comes from Juliana Weiss-Dalton with Morgan Stanley. Please go ahead.

Juliana Weiss-Dalton, Morgan Stanley: Good afternoon. My question is about debt financing, both on PEPR's and on the Fund II's end. Given the current credit market environment, can you discuss how you plan to debt finance your equity contribution, one? And two, how dependant is the Fund? I recognise that it was oversubscribed on the equity side, but you have indicated an LTV of, I believe, 50% to 60%. How reliant is the Fund to debt financing and what sources will it be able to use to achieve that?

Robert Watson: Well, Juliana, thanks for being on the call. I think that first of all, the traditional method which ProLogis has used to put that in place for the private equity funds in Europe has been through the use of CMBS offerings and we would certainly anticipate that that would be a major source of funding for the Fund to develop, but I suggest that you can direct those questions to the ProLogis people. In our case, ProLogis European Properties, right now we have at least a two year capacity under our bank lines to go ahead and make the contributions, to accept the contributions that our investment in the contributions for the Fund and we would anticipate that debt markets would settle out in that period of time and, as you are aware, we are working on an unsecured debt strategy going forward. If that unsecured debt strategy does not give us the debt that we would like to have then we would as well, I believe, go into CMBS programme again. So we have plenty of options to fund those investments.

Juliana Weiss-Dalton: Thank you.

Operator: The next question comes from John Perry with Deutsche Bank. Please go ahead.

John Perry, Deutsche Bank: Hi, Robert. Juliana actually asked most of my questions, but the other thing I was just wondering is when you look at where your shares are trading, the discount to NAV, the

kind of dividend yield that it offers right now, how do you weigh share buy-backs versus investments in the new fund and would you have any available capacity to finance buy-backs? It is something you are considering?

Robert Watson Well, John. I think we would not be doing our jobs if we didn't consider all of the options to provide the highest return to our shareholders. But I think we have to do that in the long run and we have looked hard and obviously we couldn't do anything while were working on this investment because we would be – if we had been buying back shares we would have been trading heavy insider information, which the whole market would not have had. But we don't find any evidence that in the long run that the share buy-backs, increased share price - they may give a short run bump to the stock but there is no good empirical evidence that we can see that does that.

Having said that, we will continue to review and we certainly would have the ability. We can always – our investment is going to come over the next three years and we would have the ability, if we wanted to, to buy shares back through financing that buy-back or selling assets that would make – you know, like trade as we did this year. We sold assets; we would anticipate, we have always said, that we would sell assets in the future, but again right now we can afford the investment in ProLogis private equity funds and we would have flexibility to do the right thing for our shareholders.

John Perry: All right, thank you.

Robert Watson: Okay, thank you John, for being on the call.

Operator: We now move to Rogier Quirijns with ABN Amro. Please go ahead.

Rogier Quirijns, ABN Amro: Good afternoon. This is Rogier from Amsterdam. I have got a question on the new contributions which should be done in September '07. Could you tell anything about the expected order, the rental levels which have been closed in this portfolio and maybe on the spread of the portfolio to the different regions?

Robert Watson: Well, Rogier, I really can't because we have seen an indicative portfolio, but we haven't seen *the* portfolio necessarily that we are actually going to buy. There are still some buildings that are undergoing lease ups and I know ProLogis is working on a balance. So I would expect that the assets would be over a number of our target markets in a number of countries. They will all be new assets and, therefore I would say, they have been leased in the market. The appraisals will take into consideration because it is going to be on an appraised basis, we will take into consideration the level of rental income as against the market in fixing the valuation based on as well linked to term of lease. So, I think you can feel comfortable that all those metrics should be appropriate to our acquisition, but I can't really go into specifics.

Rogier Quirijns: Okay, but do you see that because construction costs are quite increasing at a quite rapid pace, do you then see also rental levels following the increase in construction costs for part?

Robert Watson: I absolutely do. I think that – I have been saying it for some months now that we would certainly expect over the next 12 to 18 months at rental rate growth will occur. We are starting to see it in the UK, in some of our other markets that have been affected by the combination of rising construction costs, like rising land costs, and certainly the slowing are in some cases the cessation of cap rate compression. So, we expect to see growth in our existing portfolio and we expect that these assets as they come in again will be leased at the market, but on their annual reviews and other annual reviews in the UK and construction cost increases, we will see growth in the rental incomes on those properties as well.

Rogier Quirijns: Okay, thank you very much.

Robert Watson: Thank you for calling.

Operator: As a reminder, ladies and gentlemen, please press *1 to ask a question. We will now move to Svitlana Gubriy with Standard Life. Please go ahead.

Svitlana Gubriy, Standard Life: Thank you. Good afternoon. From PEPR's standpoint, what advantages does the participation in the Fund have as opposed to direct acquisition in the marketplace? This is the first question, and the second: you mentioned that you don't know the exact portfolio that will be acquired by the Fund, but in terms of the indicative portfolio that you are seeing, what level of internal rental growth or internal growth in general do you expect from that portfolio, compared to your existing portfolio now?

Robert Watson: Well, let me answer the last question first, Svitlana. We think over a nine year investment horizon that we would see a low double digit internal rate of return for our investments and we feel good about that. We see that as a combination of asset value increase as well as rental rate growth increase in 2% to 3% a year over the period. In terms of your first question, that may not – this is the investment in the Fund, we have always stated from the beginning that we were going to acquire new assets in the main through the fund vehicle, allowing us to maintain the breadth of our ownership across all of our target markets. Here you see us being able to take 30% of a €6 billion to €7.5 billion portfolio of assets, where if we do it on our own only, given the same metrics we would be having the ability to invest €2 to €2.5 billion including leverage. So we are able to maintain our spread of facilities for our customers across all of our target markets and do it in a relatively quick two and a half to three year period.

Now, having said that, we have acquired directly and there is nothing in our bylaws or anything that would stop us from acquiring directly if we found opportunities out there that are beneficial to us, but this is the

main growth route that we chose when we took the company public, and so we are pleased to be able to do this.

Svitlana Gubriy: All right. Thank you.

Robert Watson: Thank you, Svitlana.

Operator: At this point, there are no further questions over the phone. Are there any questions from the webcasts?

Jennifer van der Eem: There are no questions from the webcast.

Robert Watson: Okay, with that I thank all of you for calling in. We appreciate it. We again are excited about this opportunity and we are going to work real hard to implement well and continue to drive returns to our shareholders. We look forward to talking to you at our next earnings call, if not before.