

ProLogis European Properties
Presenters: Robert Watson, Peter Cassells, Ralf Wessel
Thursday 25th October 2007
16h00 BST

Operator: Good afternoon. My name is Dervla and I will be your conference facilitator today. I would like to welcome everyone to ProLogis European Properties Third Quarter Financial Results conference call. Today's call is being recorded. All lines are currently in a listen-only mode to prevent any background noise. After the speaker's presentation there will be a question and answer session. If you would like to ask a question during this session, you will need to 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 Dervla, and good afternoon. Before we get underway, I'd like to state 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 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.

Robert Watson, CEO, will give an overview of the performance and outlook, and Peter Cassells, CFO, will cover financial performance; and finally Ralf Wessel, Head of Asset Management, will talk about operating performance and leasing activity. At the end of the presentation we will be happy to take your questions from either the call or online. Robert, please begin.

Robert Watson: Thank you Jen, and good afternoon everyone. We are pleased to be reporting significant progress in our financial and operating results for the third quarter of 2007, marking the end of what has been a very successful first year as a listed company. Our adjusted earnings show a healthy increase of 18.8% for the quarter and we are delighted to achieve a €0.65 distribution per unit for the nine months to the end of September, implying an annualised dividend yield of 7.3%.

Our solid results for quarter three underpin a very active quarter in terms of what ProLogis European Properties has achieved over the last three months. I will hand you over to Peter Cassells in a moment to talk about the numbers in more detail, but I would first like to point out how these results once again illustrate our proven ability to drive operational performance from our portfolio.

Over the course of quarter three, ProLogis European Properties completed a total of 29 lease transactions covering 138,000 square metres, bringing the total surface area of the lease transactions completed this year to just under 500,000 square metres, and overall occupancy to 97.1% from 96.4% at the end of the second quarter.

Another significant achievement over the last quarter has been PEPR's commitment to invest €900 million in ProLogis' newly created private equity fund, ProLogis European Properties Fund II over the next three years. Fund II, to which we have already contributed over €80 million, is expected to invest its capital of between €6 and €7.5 billion in acquiring modern distribution facilities that will complement our existing state-of-the-art portfolio and increase critical mass in our key markets. It will also enable us to access new markets such as Slovakia, which is part of the €613 million portfolio of buildings contributed to the Fund II by ProLogis at the end of September. ProLogis European Properties Fund II is an exciting development for us, from which we expect to generate an income return in the range of 6.5-7% per annum.

We are also delighted to have issued our first unsecured bond for €500 million subsequent to the end of the quarter. It has been extremely well received by the market, at two times oversubscribed, and represents a very positive step in our financing strategy that Peter will talk about later. However, it is significant that we were able to accomplish this debut issue in the face of very difficult credit markets here in Europe.

Ralf Wessel will speak in more depth about asset management, leasing and our markets but I would like to comment on a few things. During the third quarter we continued to deliver on our strategy of active asset management that we set out at the time of the IPO. Following the disposal of a portfolio of non-core assets in France and the acquisition of a modern distribution facility in Wroclaw, Poland ProLogis European Properties' directly owned portfolio at the end of September consists of 247 buildings covering 5.2 million square metres in eleven European countries. The open market value of the portfolio at the end of September is estimated at €4.2 billion and the portfolio risk profile remains attractive, with a high occupancy level (97.1%), a

diversified customer base and 4.8 years to next lease break or 6.8 years to lease expiry on average.

When combining our directly owned portfolio with the investment in Fund II, the combined portfolio consists of 273 buildings, covering 5.9 million square metres in twelve European countries. The open market value of the portfolio at the end of September is estimated at €4.8 billion. The combined risk profile improves over the direct portfolio, with occupancy at 97.4% and 5.2 years to next lease break or 7 years to lease expiry on average.

The disposal of the portfolio of assets in France for €425 million represented a significant premium over net book value, and the proceeds from the sale were used to pay down debt and provide capital for reinvestment.

In terms of our market outlook, occupier demand remains robust in European markets, with employment growth, improved economic activity and a continued increase in global trade leading to increasing demand for distribution space. Rental rate levels remain fairly unchanged but we are beginning to see signs of rental rate growth. We believe that the impact of higher cost of debt brought about by the credit crunch will help bring rental rate growth forward.

We continue to focus on top quality distribution facilities in key logistics markets and are confident that our occupancy rates, lease links and balance sheet strength will give us the competitive edge we need to outperform the industry.

Now let me hand over to Peter Cassells to cover the financials.

Peter Cassells: Thank you Robert, and good afternoon. On an adjusted basis, our nine months earnings increased by 5.4% from €111 million to €117 million compared to 2006, driven by an 11% increase in rental income. The earnings increase includes a sizeable fee of €6 million received in June from a customer in the UK on the termination of a lease. On a per unit basis, this overall increase in adjusted earnings translates to an increase of €0.02 to €0.61 for the nine months period.

If I concentrate on NAVs for a moment, our adjusted net asset value at the end of September of €14.21 per unit is €0.20 lower than at the end of June, due largely to the impact of a weakening in sterling at the end of the quarter. This is an unrealized adjustment to the net asset value of PEPR and is recorded directly as a component of equity.

Looking at the income statement now, PEPR's net earnings for the nine month period under the IFRS format has decreased from €381 million in 2006 to €169 million this year. This is a direct result of the significant valuation gain recorded when the entire portfolio was revalued in June 2006 in preparation for the IPO. For the quarter, IFRS earnings per unit increased from €0.03 in 2006 to €0.24 for Q3 2007. This is explained by the €27 million of IPO cost and expenses in the third quarter of 2006 while in the current quarter, PEPR has benefited from a €14 million profit on the sale of the Garonor assets.

Looking at some of the other elements of the nine month income statement in detail, we see that the costs of rental activities have increased slightly from €21 million to €22 million. Fund operating expenses for the nine months of 2007 are down sharply from the same period of 2006 due to the significant IPO costs. The 2007 costs include €5.2 million as a provision for an incentive fee potentially payable to ProLogis early in 2009. The fee is calculated on the basis of PEPR's annual return to unit holders, with the first measurement period extending from the date of the IPO to the end of 2008.

Setting this provision aside, as well as the impact of the IPO expenses, the overall level of operating expenses has increased by just 5.5% to €8.2 million due to the increase in the size and value of PEPR's portfolio. A table detailing these comparisons is included on page 4 of the news release.

Net profit on the disposal of investment properties is €19 million for both nine month periods. A disposal of six buildings in France and one in the UK accounted for the profit last year. The comparable result for this year includes €4.8 million following the release of escrowed funds related to a UK portfolio sale in 2003 and €14 million profit on the French disposal in August.

As Robert pointed out, disposal proceeds of €373 million were used to repay borrowings under our €800 million revolving facility, thereby creating additional leverage capability to make our initial investment of €82 million in Fund II, ProLogis' newly formed private equity fund.

The disposed portfolio had generated on average €1.8 million of gross rental income per month. The loss of this income would be more than offset by related savings on asset and fund management fees, debt service costs and ongoing capital expenditures as well as income from PEPR's investment in the new fund.

Year-to-date, PEPR has recorded €45.8 million of fair value gains on its portfolio, primarily from the revaluation of half the properties in June. A complete revaluation of our entire portfolio is scheduled to take place in December 2007. As pointed out earlier, the comparable fair value adjustment in 2006 was a result of a revaluation of the entire portfolio at a time of significant cap rate compression.

Looking back at the financing activities for the nine months to September 2007, PEPR incurred interest expense of approximately €73.5 million for the period, up 19.9% compared to the corresponding period last year. This increase was primarily due to the increased use of PEPR's debt facilities to finance its initial investment in Fund II, finance the €153 million redemption of preferred equity late last year and the expenditure of almost €300 million on properties in the last twelve months.

In July 2007, PEPR redeemed €344.6 million of CMBS debt, costing on average 5.7%, financed by the proceeds of a €400 million short-term facility costing on average 5%. This action helped maintain PEPR's weighted average interest for the nine month period of 2007 at 4.9%, as it was for the first half of the year. The comparable weighted average interest rate for the same period in 2006 was 4.5%.

In October PEPR debuted in the European bond market when is listed €500 million of seven-year notes on the Luxembourg Stock Exchange. This issue, with maturity in October 2014, represents our first issuance of unsecured notes. The annual coupon is set at 5.875% and net proceeds of the issue of €495 million will be used this week to pay an equivalent amount of short-term debt. The addition of this source of financing is expected to result in a weighted average interest rate of 5.1%, up 20 basis points compared to our year-to-date average; however, on the plus side the issuance of the notes extends the debt maturity profile of PEPR from three years to just under five years, at fixed rates of interest. The notes (rated A3 by Moody's) enable PEPR to reduce its reliance on secured debt, which now accounts for 62% of total outstanding debt compared to 100% at the end of June 2007.

At the end of September leverage levels based on gross real estate value had fallen to 43% from 44.7% at the end of 2006. Looking ahead, our current balance sheet strength and low leverage provide us with the capacity to borrow up to an additional €600 million.

Year-to-date the effective tax rate on the operating activities of PEPR is estimated at 10.7% compared to 9.7% for the same period last year.

Finally, the third quarter distribution will be €0.20 per unit, in line with the underlying distribution for the second quarter of the year. This distribution will be made on November 6th next. With that, let me hand you over to Ralf to discuss operations and the European markets in which we compete.

Ralf Wessel: Thank you, Peter. The third quarter remains an active one in terms of leasing activity and active portfolio management.

The purchase of Wroclaw DC8 in the southwest of Poland finalised the portfolio acquisition from ProLogis agreed in March. Wroclaw DC8 covers 19,000 square metres and is let to Hi-P, a Singaporean contract manufacturer, on a ten-year lease. The acquisition allows us to build critical mass in a strategic location, as the facility is located in ProLogis Park Wroclaw, adjacent to a 19,000 square metre building owned by ProLogis European Properties.

In addition, ProLogis has another six buildings totalling 128,000 square metres in various stages of development in the park. Once these are completed and let, these are likely to be contributed to ProLogis European Properties Fund II in which PEPR has a 30% equity stake.

As mentioned during the last results call, we sold 550,000 square metres of distribution space in France at a significant premium to the portfolio's net asset value. The portfolios marked it for sale as the buildings contain mainly local or regional customers and the average size of the buildings is smaller than optimal. Whilst there is potential longer term redevelopment opportunity, the market for second-generation space was very favourable at the time to sell this portfolio. We decided that with this sale we could carry out our business plan more effectively and accretively invest in new facilities.

Leasing activity has continued to build momentum over the third quarter, with the ProLogis team concluding 29 lease transactions covering over 138,000 square metres of leasable space. These included eight new leases covering 51,000 square metres with global customers such as DHL, and the introduction of some new customers. In addition, seven of our customers expanded their relationship with PEPR, taking some 14,000 square metres of space. Finally, 14 leases were renewed, covering 73,000 square metres of space and in addition, in Sweden we

completed the extension of a building as requested by Kuehne + Nagel, which is now in occupation.

In terms of market outlook, the amount for industrial space has remained strong across Europe. Employment growth and improved economic activity has led to increased amounts of warehousing space in the majority of European markets. The markets of Central and Eastern Europe, particularly Czech Republic and Poland, have seen the largest increase in demand as occupiers seek to balance costs, availability of labour and accessibility. Average rental levels have remained fairly flat on the Continent, as a result of further yield compression. However, rental growth is expected to return, particularly in prime assets, as a result of the increase in land prices and construction costs over the past couple of years.

The investment market remains very strong, as also evidenced by the fact that ProLogis fund raise of 3 billion of capital for ProLogis European Properties Fund II was significantly oversubscribed.

Now let me next cover the markets, starting with Southern Europe. The amount for prime space has been robust in France, especially in larger cities of Paris, Lyon and Marseille. Yield compression is bottoming out and rental growth is expected in the coming years. Following the sale of the Garonor portfolio, PEPR's French occupancy has increased to 96.8%, coming from 94.3% as of the end of June.

Yields have stabilised in the Italian market and we have seen rental growth in the key logistic markets such as Milan. ProLogis European Properties is 100% leased in the Italian markets.

Spain has benefited from its robust economic growth, and there is active demand for prime location, with vacancy rates in both Madrid and Barcelona amongst the lowest in Europe. We are virtually 100% occupied in our Spanish portfolio.

The UK remains a strong market, with healthy demand for prime assets although we anticipate some softening yields for secondary properties. As our UK portfolio is 100% let, we focus on maximising portfolio opportunities as they occur.

Let me now focus on Northern Europe. A revitalised German economy and its location at the geographical centre of the enlarged European Union has been driving demand for prime

location, especially the port of Hamburg. As such, we are pleased to have increased our exposure to Germany through our investments in ProLogis European Properties Fund II.

Belgium and The Netherlands remain a core market area, with the Dutch market benefiting from increased economic activity. Investment yields remain strong in these markets given supply constraints.

The last market I would like to cover is Central Europe. Economic growth in Central Europe remains higher than Western levels and yields have compressed much faster than those in Western Europe. The Czech Republic remains a dynamic market and has seen increased demand for logistics.

Poland is still a rapidly expanding market given its strong economy and the central location. The amount of distribution space has been growing across all regions in Poland, narrowing the gap between the capital and other cities. Of the 20,000 square metres of leasing done in Poland this quarter, only 2,000 square metres was near the Warsaw market. Facilities around Poznan and Terezin accounted for 10,000 and 13,000 square metres respectively.

The Hungarian market has become more stable and in the third quarter we successfully renewed five leases covering over 29,000 metres in the Budapest market. Investment demand appears to be strong, with some sharp investment yields being quoted.

We are delighted to have increased our exposure to Central Europe through our investment in ProLogis European Properties Fund II and to have expanded our geographical reach into Slovakia. Given the market conditions, the quality and the location of our pan European portfolio, the experience of the ProLogis operations team and the investment prospects through ProLogis European Properties Fund II, we are confident that we can maintain a high level of portfolio occupancy and grow income. With that, let me hand back to Robert.

Robert Watson: Thank you, Ralf. Prior to summarising, let me mention that we have today launched the upgraded ProLogis European Properties website, including an expanded investor relations section, further information on corporate governance and other features, which we invite you to review at www.prologis-ep.com.

In summary, we had a very successful third quarter, meeting operational goals in terms of leasing and revenues. We executed our plan to begin investing in the new ProLogis European

Private Equity Fund. We completed the final direct acquisition of the 200 million portfolio. We executed the €425 million French portfolio sale and finally, subsequent to the end of the third quarter, we have successfully debuted the first unsecured bond offering for ProLogis European Properties. With that, I would like to open it up for questions.

Operator: Thank you. Our question and answer session will be conducted electronically. If you would like to ask a question to our speakers, please press the * key followed by the digit 1 on your touchtone telephone. Once again, that is *1 to ask a question. We will pause for just a moment to assemble our roster. And our first question now comes from Osmaan Malik from JP Morgan. Please go ahead.

Osmaan Malik, JP Morgan: Hi guys. I think I got the question answered actually but just to check. On the Garonor portfolio I just want to know that the significant premium over book value is? Is that the €14 million profit?

Robert Watson: Well that is the profit at 14 million. The over NAV was 67...I'm sorry, was from 333 to 425, or about a 28% over what our carried NAV was.

Osmaan Malik, JP Morgan: Ok, I see. And then it's great that you put a big table with all the details on your portfolio, but then you get the problem of being asked difficult questions. Just wondered if you could make any comments on the ERV negative growth for, say, Hungary, Netherlands and Germany and also maybe on the growth in Italy.

Ralf Wessel: Yes, obviously we like to inform the public with a lot of details, and we can expect these kind of questions. The gap, if you like, between our annualised rental income and the ERV where the market is today, the simple explanation is actually the yield compression that we have seen over the last few years.

We have seen significant yield compression throughout the whole market in Europe, being the most aggressive yield compression in the Central European markets. And if you simply take the statement that the land and construction costs and the yields are driving where market rents are going then obviously if the yields are going down, rents will follow as a consequence of that. And that's essentially what we have seen happening in pretty much all the markets around us and, as we have already quoted also in the verbal part of this call, is that we have seen that yield compression has definitely slowed down and probably in a lot of countries also come to an end. So that's where we feel that rental growth will come into the market.

If you look at the table, we started with our fund business in '99. As such, the bulk of our leases has already been there since '99. So where leases are rolling over, we have to adopt them to a market level.

Robert Watson: Yes, let me add two things. The first is to draw your attention to the average lease break, and say that we do have time for rental rate growth to catch up with the ERV and we expect that to happen. The second piece of that – and you can't see it in these tables – but we have some longer term leases in Poland that have six to eight years left to run and so a significant amount of the ERV difference, let's call it 30%, is directly attributable to those longer term leases which we think, you know, it's kind of like unrealised capital issue in the financial statements. We don't think that we will realise that.

Osmaan Malik, JP Morgan: Ok, thank you very much.

Operator: Thank you. We will take our next question from Boudewijn Schoon from Kempen. Please go ahead.

Boudewijn Schoon, Kempen: Good afternoon. I have, I think, three or four questions starting with the income return profile of the ProLogis Fund II. You stated before also that it would be around 6.5-7%. Meantime, financing costs have increased for real estate somewhat. What would that do to that income return profile, you believe?

Ralf Wessel: Hi Boudewijn. It's Ralf Wessel answering this – well, the first part of this question and I'll hand over to Peter as well when it comes down to how to finance the investment in the new fund. ProLogis European Properties, the listed company, has invested, has subscribed into our non-listed fund and the way that the subscription has worked is that it will pay at that particular local level asset management fees to ProLogis and it is getting in return a dividend yield, an unleveraged dividend yield if you like, at listed level of 6.5-7%. So from that point of view, the non-listed fund paying out its dividend towards ProLogis European Properties will not change the way that ProLogis European Properties finances and funds its investment in that. I'd like to hand over to Peter to cover that.

Peter Cassells: Hi Boudewijn. I alluded to the point in my part of the presentation. We have debt capacity on our balance sheet of 600 million and we are currently in the process of renewing some of the expiring debt facilities we have in place to provide ourselves with enough room to finance these acquisitions, these investments. We expect to finance this by raising

euros and obviously would be in the market right now to obtain the most advantageous rates that are possible.

Robert Watson: Boudewijn, it's Robert Watson. One other piece is in budgeting for PEP Fund II and the debt included in PEP Fund II, they didn't take the lowest interest rate available and run it through the budget. They expected to have some increase in interest charges, so some of what you are saying was taken into account in the budgeting.

Boudewijn Schoon, Kempen: All right, yes. So it could, it would, will have an impact but still the income return would remain within the range of this 7-6.5% you would expect.

Robert Watson: Yes. Right, we are comfortable with that now. Remember what we have always said, Boudewijn, is that is an average over the expenditure of the fund so when this first contribution, we had about 40% of the assets were in England – in the UK. So the average return on this first contribution will be at the lower end of the 6.5-7, not as the upper end as there is more Central European assets or other higher return assets are contributing, and other contributions then the average will be at the higher end of that. So we are saying over time the average will run between 6.5-7%. It may vary by particular contribution but over time it will be in that area.

Boudewijn Schoon, Kempen: All right, fair enough. Maybe an add-on question if I may. You did this bond issue, which is unsecured and therefore a little bit more costly. If you would attract secured finance at this stage, what do you expect your margin, lending margin would come out at?

Robert Watson: Well Boudewijn, one, right now the secured market in Europe doesn't exist. You couldn't do one today if you wanted to. Now just, and I will just give you in general because we certainly did the comparisons, but if you compared the all-in cost of doing a secured issue as against doing an unsecured issue, we felt the delta – and this was before the credit crunch – we felt the delta was roughly 10-12 basis points, again if you used all-in costs. So a secured would be about 10-12 points better. But we felt, and we feel, that the flexibility in the operating opportunities that having an unsecured programme certainly outweighed that differential and it is our plan as the secured CMBS issues mature that we will replace those with unsecured offerings going forward.

Boudewijn Schoon, Kempen: Ok. That would imply a slight increase in the cost of debt for PEPR as a result.

Robert Watson: Under today's market conditions it would. If you think in the future that interest rates will decline, that LIBOR would decline from where it is today and the market would change then it might be different but right now, looking at it, yes. You would say it would increase our weighted average from where we are, and as Peter said, we expect with this first issue we are going from a 4.9 average to a 5.1%.

Boudewijn Schoon, Kempen: Ok, well another question, more regarding the outlook. You indicated that there might be some softening of yields for the non-prime UK assets in general in the market. Well my question would be: what would you consider really to be prime in your portfolio and would there in the UK part of the portfolio also be some parts that could be susceptible to yield expansion?

Robert Watson: Well let me answer part of it and then I will have Ralf answer that other part as I see it. The UK portfolio is the youngest, and by and large totally developed by ProLogis since it has been operational in Europe, which we acquired through the contribution. I wouldn't, I don't know that I could drive around and show you a class B asset that we own in the UK market. I think they're all prime and they're in prime distribution locations with long-term leases so having said that, let me have Ralf talking about cap rates.

Ralf Wessel: We've mentioned that on previous calls as well yield compression is slowing down. The UK always leading the trends in the market – and in this case not different. If we see where yields are today in the UK, on a blended basis throughout the whole UK for logistics is probably about 5.5%, ranging from 4.5%, maybe even sharper, for Heathrow assets towards 6% maybe on assets more like Northern or Midwest kind of locations. If you look at the Midlands, the pure heart of the Midlands, the Coventry/Birmingham area, which is still the heart and soul of the UK logistic landscape, you're probably about anywhere between 5.25 and 5.75. That has already been for a little while that we're sort of getting on that flat level.

We anticipated and we still are anticipating that those yields remain where they are or might even (and we hope not but obviously that's something that at some point we should not ignore) could go up by 25 basis points. If you see where interest rates are, all the indications could be there that there is a yield that is expanding in the UK.

We also strongly believe that that is going to be related with a rental growth component that will compensate for that yield expansion if it happens. Where we see that yield expansion has already occurred, we are talking about secondary markets but we are talking then for assets that are really of secondary grade, so lower assets – lower in terms of ceiling height, older assets and really sort of smaller boxes at different locations. So the market is now going to be distinct between quality and non-quality, and we still see that investment capital is now really going for a flight for quality and that's where we see that the investment yields for the high quality investments are still at a flat level where the market is now making a distinction from what is not top quality.

Boudewijn Schoon, Kempen: All right, fair enough. Thank you. So it's still to be seen what happens going forward and it's quite unclear of course still exactly what the direction is, as you stated.

Robert Watson: I think, Boudewijn, that simply there is no evidence in terms of sales that we can point to that would show yield expansion, cap rate expansion. I would just say that the bias would be in that direction and I think certainly the market – certainly the market is differentiating between class A and class B. And then over the next three months, six months we will see something.

Boudewijn Schoon, Kempen: All right. Some other aspect. In your outlook you also related yield to compression and the fact that rentals remained flat, one as a result of the other. This question I guess is more for Ralf, maybe you can elaborate on it. I mean, I wouldn't expect rentals to remain flat or decrease in absolute sense if yields go down. I thought those were unrelated. What did you mean with that particular sentence?

Ralf Wessel: The ingredients, if you like, that go into development of a warehouse, it's the cost components and the yield. Take for example where the Warsaw market was in '99: yields were about 10%, construction costs – keep that as a fixed component – and that resulted in rent levels about €70-80. The moment that the yield starts compressing, meaning that the rents could go down so that's the function, simply speaking, between yield and rent level and we have seen that happening in the Polish market, which clearly is far advanced for example vis-à-vis the Moscow market. If you look at the Moscow market, you are at 10-11%; we have rental levels at 90. The moment the markets are getting more advanced and yields are starting to seek their level at a much lower level, that enables the rent to come down.

So if we take the assumption that yield compression has come to an end and at some point will flatten out, we also all know that land prices have gone up explosively and construction costs have been rising significantly. So the moment that the cost component on the development equation go up and yields stay where they are, then the rents can only move one way.

Boudewijn Schoon, Kempen: Yes, ok. You are seeing it as a result of the costs needed to put the building there. Ok, thank you.

Ralf Wessel: Exactly. The replacement cost of a building.

Robert Watson: And as well you have got to, I think, add in the spectre of higher cost of debt. So every piece of the equation today for someone building a new building, which existing buildings do compete with new buildings so that the cost equation for underlying financial costs, construction costs and land is going up and we think that bodes well for our rent performance.

Boudewijn Schoon, Kempen: So I mean in this, would you hereby also therefore say that if you take the market value and you compare it to the construction value, the replacement value, that they are basically the same or very near to each other for logistical at current?

Robert Watson: Well, if you take NAVs today and what exists today, and construction costs, there certainly is – what has happened in the past is that allowed a margin for the developer, the compression in cap rates still allowed the developer to make his 15% margin, all right? Well, we think that that margin is going away with cap rate compression going away. So we've got...so replacement costs thereby are rising against NAVs in place.

Boudewijn Schoon, Kempen: Ok, so you would actually say more that the replacement costs are rising than market values are going down, heading towards replacement costs in a future scenario?

Robert Watson: Well I think that if you say that an NAV is built on the in-place rent and new development has to afford itself with a developer's margin in it, rents are going to increase and therefore replacement cost is – I mean replacement cost is increasing and the margin is going to be there, so when we compare our existing buildings with new development, you are going to see more parity in the NAV and the replacement cost of new buildings because our rents will be extrapolated to go higher in the future.

Boudewijn Schoon, Kempen: All right. Ok, thank you very much.

Operator: Thank you. We will take our next question from Cedrik Lachance from Green Street Advisors. Please go ahead.

Cedrik Lachance, Green Street Advisors: Thank you. On the leases that rolled during the quarter and perhaps so far year-to-date, can you give us an indication of the change in rental rates that you have been able to achieve?

Ralf Wessel: The rents that we, the rollover if you look at the various markets where it's still moving, Central Europe, the renewals of our leases typically tend to be lower than the rent in place as also indicated by the table because that is where the market rents, the ERVs, are less than the annualised rental income. If I look at the UK where we don't have got really the lease rollovers but our five-year rent reviews up where we have seen quite some growth in our rental profile where the rent revisions come in, that the rent is going to be pushed upwards. If I take somewhere like the middle part of Europe, it varies from location to location. The airport locations that we have, we see some growth and sort of like the more motorway locations outside the cities are either flat or slightly under pressure.

Cedrik Lachance, Green Street Advisors: Ok. As far as capital expenditures that you have had to put on those rollovers, would you say that it's trending down or it is flat or it is trending up?

Peter Cassells: That would be flat for us, I mean it's a well trodden path for our type of building, so we don't have any issues there.

Robert Watson: Yes, it's different than in the US. Commissions on new leases are not, are typically in most markets, with a couple of exceptions, 10% of the first year's rent. It's not 6% of the total rent stream so those are very controllable.

Cedrik Lachance, Green Street Advisors: Ok. Just to bring you back on the previous, some of the previous questions, in terms of what you would consider prime versus perhaps a slightly lower grade quality asset outside of the UK, would you be able to characterise your portfolio in that regard in your major markets, let's say France, Germany and some of the other key locations?

Robert Watson: Right. Well absolutely. What we have done over the past two and a half to three years is move out of the smaller, multi-customer facility that had an average age of something over 15 years or 20 years, and those would be characterised by lower clear heights, in many instances buildings where we had to spend some money to upgrade sprinkler systems, fire protection systems and which had limited trailer storage and manoeuvring room for lorries. We by and large have moved out of all of that, and I think that's certainly indicative of the fact that the average age of our portfolio today is less than six years. So you know, and that average – that's an average by and large from seven years ago, so it's weighted heavily towards newer facilities.

And the other ones that we have bought, for instance we bought from third parties that might be older. We bought a six-building portfolio a few years ago from one of our customers called FM Logistics that actually had better, had 36' (12 metre) clear height, 13 metre clear height coverage and tremendous trailer storage and tremendous truck manoeuvring room. I'd be very pleased to drive you round any building you would want to look at in our portfolio and I think you'd call it an A.

Cedrik Lachance, Green Street Advisors: Ok, and then final question if you can pull out your crystal ball a little bit: if you again look out twelve months from now, in which market do you think you will experience or which market will experience the greatest rent growth?

Ralf Wessel: That's in my mind to be expected in the UK. Land prices in the UK is a very interesting phenomenon. Land is being very restricted, as we all know, in the UK. Taking land through planning permission takes you a number of years so where land is scarce the prices are going up. So as said in the early stage of the conversation, we think that yields for secondary grade are softening. I think it's a fair assumption to say that yields are flat in the UK today, where the land's being constrained prices go up and the construction costs have been increasing as well. And the yields today are lower than the long-term interest rate. There is in my mind only one way where the rent can go, and that is going up. So that's the first market where we expect the most significant rental growth number coming in.

Cedrik Lachance, Green Street Advisors: Right, thank you very much.

Operator: Thank you. We take our next question now from Charles Watford from Pimco. Please go ahead.

Charles Watford, Pimco: First of all, with PEPR II now up and running, I wonder if you can tell me whether PEPR I will still be buying assets from ProLogis.

Robert Watson: Not directly. Those assets will go into the Fund II and we will have our 30% interest in those assets.

Charles Watford, Pimco: Right, I see. So the assets that are held in PEPR I are just going to stay there – is that right or there might be some turnover?

Robert Watson: Yes, that's right. Yes. We go through, as we have done, the assets and actively manage where we think valuations are and if we see assets that we believe have reached a peak value and it's appropriate strategically, we will move out of them as we have done every year.

Charles Watford, Pimco: But will they be replaced by then the cash that comes out of that or will that be paid to shareholders or debt retirement or ...?

Robert Watson: We would expect that to be part of our reinvestment plan into new private equity funds. This existing private equity fund or joint ventures or, you know, really we'd look to have it as reinvestment, as long as it can be made accretively.

Charles Watford, Pimco: Ok, I see then the second question is on the rental income that you have laid out. So rental income has increased by 10.7% over the nine months, I think you have got in your report. Are you able to break that down between what the growth has been on your portfolio, as in what has been rental growth and what has been from additional properties you have put in there?

Peter Cassells: We know that from the properties that PEPR acquired directly from ProLogis this year, they were acquired in March and the final one was acquired just at the end of September. They were going to generate on average about €14 million a year. And as I mentioned in my part earlier on, the properties we disposed of at the beginning of August were generating about €1.8 million a month.

Charles Watford, Pimco: Ok, I see. A final question then on the costs that we have talked about. I think in an earlier call I have had with you, you mentioned that the cost of construction

has been rising. Can you actually put a figure down for some of the major markets? What sort of construction cost increases have you seen? Is it like 5%, is it 10% for the UK increase?

Robert Watson: Over the past three years it has been over 35% and that is pretty much across the board.

Charles Watford, Pimco: Ok, is it 35% over the three-year period, just to be clear?

Robert Watson: Yes, total increase over the three-year period.

Charles Watford, Pimco: Right, thanks very much. That's it.

Robert Watson: Operator, if there's one more question let's take that.

Operator: Yes, we have one more question from Juliana Weiss Dalton from Morgan Stanley. Please go ahead.

Juliana Weiss Dalton, Morgan Stanley: Hi guys. Just a quick one. On your rental income, can you just reconcile the drop from the previous quarter? You talked about what you have lost for the two months from the sale of Garonor but what accounts for the rest of it?

Peter Cassells: You're just looking at the rental income line or the total revenue?

Juliana Weiss Dalton, Morgan Stanley: Yes, the rental income line.

Peter Cassells: We also have in there a rent levelling adjustment which would also impact the rental income line, so that is a reduction in the top line rental income as we amortise rent levelling adjustment that we put through the income statement over the last couple of years. But in the specifics I don't have that analysis to hand.

Juliana Weiss Dalton, Morgan Stanley: Is that something I can follow up on?

Peter Cassells: Yes, easily.

Operator: Thank you. There are no further questions at this time, gentlemen. I'd like to turn the conference back over to you for any additional or closing remarks.

Robert Watson: Well again, thank you for listening in. We are pleased with the performance that we have had. We look forward to being with you again on the next earnings call and appreciate if you have any other questions, feel free to call us.

Operator: Thank you for your participation in today's ProLogis European Properties Third Quarter 2007 Financial Results conference call. This conference call will be available for replay beginning today at 8 p.m. Central European Time through to midnight Central European Time on the 8th November 2007. To access this replay you may dial 0800 559 3271 from the UK, 0800 911 479 from France, 0800 027 0028 from The Netherlands, 866 883 4489 from the US or 44 207 806 197 from an international. The replay passcode is 6469145#. Thank you, ladies and gentlemen, and you may now disconnect.