



***ProLogis European Properties
Third Quarter 2008 Financial Results***

***Presenters: Gordon Keiser, Peter Cassells, Simon Nelson
Thursday 23 October 2008
16h00 BST***

Operator:

Thank you for standing by and welcome to the ProLogis European Properties Third Quarter 2008 Financial Results Conference Call. At this time all participants are in a listen-only mode. There will be a Presentation followed by a question and answer session, at which time if you wish to ask a question you will need to press *1 on your telephone. I must advise you that this Conference is being recorded today, Thursday, 23 October 2008.

I would now like hand the conference over to your speaker today, Jen van der Eem. Please go ahead Madam.

Jennifer van der Eem: Thank you Heidi and good afternoon everyone. Before we get under way I would 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 operate as well as management of lease and assumption. Forward looking statements are not guarantees of performance and actual operating results may be affected by a variety of factors. I would like to hand over to Gordon Keiser, Chief Executive Officer of PEPR to start the proceedings.

Gordon Keiser: Thank you and good afternoon everyone. In the face of mounting evidence of recessionary trends in several major European economies, and distress throughout the financial markets, we are still able to report continued strong operational performance for our properties in the third quarter. We have increased occupancy in the directly owned portfolio to 97.7% from 97.1% at the end of June, as a result of 21 lease transactions during the quarter. Distributions in the third quarter are €0.18 per share and €0.57 per share for the three quarters. We remain confident of achieving our distribution guidance for 2008 of between €0.76-

0.80 per unit for the year, but probably towards the lower end. We plan to release guidance for 2009 with the fourth quarter results as we did this year, after finalising the budget and after approval by our Board and after assessing progress on several initiatives we have underway that I will comment on later.

Unfortunately our share price performance has not reflected the strong operational performance with the unit price underperforming the EPRA and our peers since July, compared with previous outperformance. Extensive discussions with our unit holders and general market practitioners have highlighted two main areas of concern.

First, debt re-financing in the current credit constraint environment and second, our continuing investment in PEP Fund II and how these impact future distributions. There have also been questions raised over our externally managed structure and the transparency of our investment in PEP Fund II. Regarding the structure, our share price performance had exceeded EPRA from the IPO date and for this year until the last several months, so we are not convinced that the structure alone has led to the recent underperformance. Regarding transparency, we have increased disclosure this quarter on PEP Fund II and Peter will discuss this later in the call.

But let's turn to liquidity and debt refinance, as well as the initiatives we have underway. From a current liquidity standpoint, we had €98 million of cash in the balance sheet at the end of September and €300 million remain undrawn under our revolving credit facility. Our first debt maturity is a €336 million CMBS due in July 2009 which has a current loan to value of 52% based on June valuations. Given current market conditions, we have already investigated the options to refinance this debt early and are reasonably confident of obtaining a commitment in the first quarter of 2009. Our current plan is to use the secured market. Most likely the pfandbrief, which are covered bond market through the German Mortgage Banks. By reference, PEP Fund II accessed this market in August and raised €263 million on a five year term at a spread of 125 basis points over libor and swapped to fixed at a rate of 5.58%. However as a result of a HYPO Real Estate government assistance plan, the pfandbrief market has been impacted but we understand it is of major importance to the German Government to feed this market function efficiently as it has for over 100 years. And we would expect to see this market return in early 2009 if not sooner.

Now while we would intrinsically prefer to refinance secured debt with unsecured debt as we did in 2007, thereby benefiting from the increased flexibility, in the current market the 300-400 basis point difference between unsecured and secured spreads makes the unsecured market financially unviable at the moment. We will continue to monitor both markets to access which is most appropriate at the time.

We have also looked further out at the €1 billion of debt maturing in 2010. We have a €151 million secured pfandbrief loan maturing in March and two CMBS issuances totalling €548 million maturing in May 2010. The related loan to value for these three is 49% despite recent revaluation decreases. And we believe we will be able to refinance these with secured debt if the unsecured market is not available at reasonable levels. We will begin a refinance process for these 2010 maturities in mid 2009 or earlier.

Finally in 2010 the three year tranches totalling €600 million of our €900 million unsecured credit facility mature in December. Now even though this is over two years away, we have begun looking at options including extending maturities to smooth our maturity profile. It is important to note that this facility was completed ten months ago in December 2007 with 19 banks, 13 of which are global relationship banks for the ProLogis Group. As such I am confident that we should be able to achieve some degree of maturity extension in the coming months, even if the markets remain difficult.

Turning to PEP Fund II. There have been concerns expressed about PEPR increasing its leverage to buy into a potentially falling market. Now while we understand these concerns, reality is slightly more complicated than simply turning off the tap. We along with 40 other PEP II investors signed binding subscription agreements in August 2007 to invest in PEP Fund II over a three year period through August 2010. As long as the assets either being acquired from third parties, or contributed by ProLogis meet defined criteria, basically yield and occupancy, investors are required to fund equity calls. As many of you know, it is common in the private equity fund business for the sponsor to require commitments over a period of time without separate discretion over acquisitions so long as they meet specified criteria and this is the case for all of ProLogis sponsored multi investor funds.

So what happens if an investor does not meet its equity call? There are substantial penalties including no further dividend receipts, a 10% haircut on capital return and that investor becomes subordinated to all other investors in the event of a capital return. However, even without these penalties, we believe that it is appropriate for us to continue to expand our operating platform, albeit indirectly, to fuel future growth in the business and returns for our stakeholders. PEPR is a long-term business and the ability to invest in the largest and most modern development pipeline in Europe, should stand us in good stead for both customer relations and cashflow generation perspective over the longer term.

Several investors have also raised the issue of share buybacks given the current share price. This has also been discussed with our Board as we explore all potential avenues to improve the share price. There is a general feeling among the Board Members and supported by various academic studies, that share buybacks do not significantly change share performance over the long term. In our case it would basically just mean further leveraging the company and in this environment, we believe that liquidity is of paramount importance.

Related to liquidity, we would expect to annually dispose of €75-100 million of existing properties just based on sound asset management principles, generating additional cash for investment or debt repayment. Last year we sold more than this with a €400 million portfolio disposition. This year the likely sell less, with disposition proceeds of €27 million through three quarters. But it still remains our intent to have an active dispositions programme and we would expect to see this pick up in 2009. Simon Nelson will discuss this later on the call.

Before I hand over to Peter, I would like to give a general overview of the European Logistics market. The logistics sector has shown resilience in the face of challenging macro economic indicators and global financial stresses. Global trade, one of the major drivers of the business continues to grow, although at a slower pace with container volumes still up marginally this year. Our proprietary research for competitive logistics properties shows occupancies in the low to mid 90s on the continent and high 80s in the UK, so that the market itself remains in reasonable shape. Occupier demand has continued to cross most markets as evidenced by our own occupancy increase. New supply is decreasing as debt financing is harder to

source and as developers become more cautious and reduce starts. As you may have heard from ProLogis' quarterly call earlier today, and the AMB call last week.

Market yields in the UK have experienced a sharp correction and continental yields have also begun to soften. We are likely to see further movements downward, but we continue to believe that logistics properties represent a less volatile asset class than most other real estate sectors.

With that let me hand you over to Peter to discuss the financial results in more detail.

Peter Cassells: Thank you Gordon and good afternoon. Before I start with the details, let me briefly mention the changes in the presentation of our financial results which we have enacted in Q3 in conjunction with the external auditors review of the half year results and which have required us to restate prior periods. The impact on previously reported EPRA earnings on any of these is minimal with no impact on previously reported dividends. Full details are available in today's Press Release on pages 27-34.

On to earnings and results. IFRS results for the nine months of 2008 were down from the net earnings number last year of €202.1 million to a net loss this year of €1 million, due largely to the impact of accounting for fair value adjustments to portfolio values and the €43.2 million gain on the sale of the Garonor portfolio in July last year and the receipt of escrowed proceeds at that time. IFRS earnings for the nine months to date contain €113 million of non cash revaluation losses following the semi annual review of PEPR's entire wholly owned portfolio. The corresponding adjustment last year was a gain of €55.1 million.

Once you strip out these with the non-cash adjustments from our IFRS results to arrive at our EPRA defined earnings, you will see a more comparable set of results for year to date. EPRA earnings for the nine months were €99.2 million compared to €112.2 million for the same period last year. On a per unit basis this is equivalent to a drop of €0.07 from €0.59 to €0.52 per unit. For the third quarter alone, EPRA earnings per unit were down slightly from €0.18 to €0.16 this year.

It is worth noting that both IFRS and EPRA earnings for last year included an exceptionally large lease termination receipt of some €6 million or €0.03 per unit. IFRS earnings and dividends in 2007 also included €4.9 million or €0.02½ from those escrowed sales proceeds dating back to 2003. Additionally UK source rental income has been badly affected in 2008 by the weakening in sterling since late last year, again accounting for €0.03 per unit of the decline. The loss in income from the disposal of the Garonor portfolio has, to a large extent, been offset by income from the 16 properties added last year, increased occupancy in the meantime, as well as dividends of €9.7 million from our investment in Fund II.

Reconciliation of the IFRS to EPRA earnings for both quarter and nine month earnings are shown on page 11 of our release.

As Gordon mentioned earlier, we will pay a dividend of €0.18 per unit or €34.9 million for Q3 2008. This is just €0.02 below that for the corresponding period last year and the Q3 distribution will be paid on 5 November next.

Our year to date distributions of €0.57 per unit takes total dividends earned by investors to €107.6 million for the year so far. This €0.57 per unit number for the nine months is in line with our recently updated 2008 guidance.

As we said earlier in the year, this level of distribution continues to be achieved despite a number of negative impacts to current year earnings such as weaker pound, less exceptional income items and bad debt provisions from earlier periods this year. It demonstrates the stable nature of the cashflow we generate from our high quality, virtually fully leased portfolio which has now been further augmented by ever growing dividends from Fund II. A reconciliation between IFRS earnings and the cashflow for both the quarter and the nine month period, are contained on pages 17-18 of today's release.

In terms of specific line items in our income statement, let me take you through the more significant elements for the nine months. Rental income has fallen €10.8 million from €232.3 million to €221.5 million or 4.6%. The disposal of the Garonor portfolio, as mentioned earlier, in the third quarter '07 accounted for €13.3 million of the decline, partially offset by €3.5 million of additional rents received from the 16 properties acquired last year. The continued weakness of sterling has resulted in a

reduction of UK rental income when measured in euros, by €5.9 million for the nine months.

Other property incomes is where we recognised the €6 million lease termination receipt in 2007. We have had some minor lease termination receipts this year, but not to the same extent as last year.

In the cost of rental activity, we report property management fees payable to ProLogis as well as ground rent charges and other non recoverable costs associated with managing the properties. While savings have been made in property management fees for the nine months, due to the reduction in the value and composition of the portfolio, we made provisions of €2.4 million for those bad debts which occurred in the first part of the year.

Since then we have had no further defaults. In fact I can confirm that we have received all rents invoiced to UK customers for the current fourth quarter at approximately £11½ million. And substantially all the rent invoiced to customers on the continent for the month of October, approximately €15 million.

Fund expenses are down for the nine months of '08 compared to last year, when we had recorded a provision of an incentive fee payable to ProLogis of €5.2 million. As a result of the negative fair value adjustments recorded in the fourth quarter of '07, we have reversed this provision.

In July we disposed of a property in Italy for €6.4 million, representing a premium to the latest fair value of 14%. Earlier in the year we disposed of a piece of land located in Zaandam in the Netherlands and a plot located at Harbor Park in Budapest. Net proceeds in the nine months from the disposals came to €27.7 million, resulting in a profit of €1½ million and distributable cashflow of €2.1 million. The 2007 portfolio disposal generated a gain of €38.3 million, proceeds from which were used to repay debt at the time. In the first half of 2007, we included the €4.9 million from previously escrowed disposal proceed as part of both earnings and dividend.

Following a restatement of the presentation of property fair value movement, the year to date unrealised result of €113.1 million is almost entirely due to the mid year

revaluation exercise carried out last quarter. Our next such exercise will be carried out in December.

Finance costs for the nine months have increased by 8.2% since last year, from €78.5 million to €84.9 million. As well as pure interest expense, this line item also captures realised and unrealised foreign exchange movements and a charge for amortisation of debt raising costs.

Interest expense alone showed an increase to €80.2 million for the nine months, compared to €73.5 million. Although we have incurred no further borrowings during the second and third quarters this year, the increase in costs can be attributed to a combination of increased debt used to finance our investment in the Fund, since September last year and interest rate increases in the last 12 months, partially offset by the weaker pound over the same period.

Our weighted average interest for the nine months has increased to 5.3% from 5.2% from the first half of this year. We continue to have over 65% of our debt balances at fixed rates of interest.

Amortisation charges related to transaction costs incurred in raising debt, the final element of our finance expense caption, have decreased a lot since last year, from €7.2 million to €4.7 million as a result of the redemption of two CMBS issuances during the second half of 2007.

Our share of the year to date losses of PEP Fund II have been estimated at €6.2 million. PEP Fund II also reports under IFRS requiring it to record its property portfolio at fair value. Although it has generated operational profits for the nine months of almost €66 million, this has been offset by fair value adjustments of €96.5 million and finance costs of €27 million. We have added a set of statements detailing the results and financial position of PEP Fund II including the calculation of our interest in that Fund, and these can be found on pages 21-23 of today's release.

Currently we value our investment in PEP Fund II at €8.61 per unit or €300 million, as you will see from our Balance Sheet. The redemption price is currently estimated at €9.31 per unit or €325 million, a premium to current book value of €25 million. To

date we have not reflected this higher redemption price as it only becomes effective at the earlier of full investment or August 2010.

Our investment PEP Fund II has generated a dividend of €9.7 million, representing a year to date cash return of 5.7% per annum. This is ahead of our projections at this stage of the equity commitment period and well on target to achieve our expected income return of between 6 ½ - 7% on average per annum on a longer term horizon. This item is no longer recorded in our income statement, but is reflected as an important element of distributable cashflow.

The current income tax charge for the nine months of €15.9 million is almost 10% lower than the comparable period last year, in part due to the lower level and overall mix of taxable income in the current year. Effective tax rate on estimated taxable income of 13% is slightly higher than 12% for the same period last year.

Looking at our capital structure, our balance sheet remains in good shape with loan to value levels at 48% at the end of September, down marginally from the 48.4% at the end of June and well within our regulation limit of 60%.

Turning to net asset values for the moment, our EPRA NAV at the end of September is €11.69, €1.04 per unit lower than at the end of December, due to the portfolio devaluation I mentioned earlier, the impact of the weakening sterling during the first half of the year and the fair value adjustments to the carrying value of our investment in PEP Fund II.

With that, let me hand you over to Simon to discuss operations and the European Markets in which we compete.

Simon Nelson: Thank you Peter. The ProLogis real estate team has maintained leasing momentum in the third quarter, concluding 21 leases, covering 81,000m² with the majority at annualised rental levels in line with or above the previous lease terms. Seven of these were new leases in the Czech Republic, Poland, Germany and France, covering 49,000m² mainly with existing customers such as Feige, DHL, L'Oreal and Gefco. In addition, seven leases were renewed and another seven leases were expanded for a total of 32,000m².

As a result of this activity, occupancy in our directly owned portfolio increased to 97.7% up from 97.1% last quarter. Additional leases starting on October 1, and therefore not included in the Q3 figures actually take this occupancy number to over 98% today, which is a reflection of the quality of buildings and locations within the portfolio as well as the customer focus of the teams on the ground.

During the third quarter, PEP Fund II acquired 25 distribution facilities, covering over 548,000m² in six countries with values totalling €396 million at a gross yield on investment at 7.1%. Four of the 25 buildings were sourced from third parties with yields in line with those contributed from the ProLogis development pipeline. On average the 25 facilities are two years old, 99.9% leased to pan-European customers such as Kuehne + Nagle, Schenker, Schneider Electric and Wincanton and have over 7½ years to lease expiry or almost 5½ years to lease break.

Following the additions to PEP Fund II, the combined portfolio of PEPR and PEP II at the end of September comprises 364 distribution facilities covering some 8 million square metres across 12 countries, with an estimated open market value of €6 billion. The risk profile of both portfolios remains highly attractive with a combined occupancy level of 98.5%, a diversified customer base and over 6 ½ years to lease expiry on average.

In terms of overall market outlook, the logistics sector has so far continued to hold up relatively well during this time of deteriorating financial and macro economic indicators. As evidenced by our leasing activity, we are still seeing a good level of occupier demand in most markets, although tenants are taking longer to make and confirm decisions. In the past couple of months, only the really essential expansion or relocation projects are being progressed, which also means that occupiers are more likely to stay put in their current premises.

On the supply side, new construction has begun to slow significantly across all markets, as development margins are squeezed by higher financing costs and rising cap rates.

I will talk more about cap rates in a moment, but will first look at the occupational market. Starting with Southern Europe, there is still demand for modern, high quality warehouse space in France, particularly in more regional locations such as Lille and

Marseilles. However the number of large transactions is down by as much as 50% compared to what was a record year in 2007. Deliveries in the first half of the year were nearly 30% down on the same period in 2007 at just under 350,000m², while market occupancy remains stable at around 93%. Fire and safety regulations continue to generate requirements as the local authorities restrict the use of older obsolete space. As such prime rents have remained stable and are expected to continue to do so.

Occupier demand in Italy remains at similar levels to 2007, with approximately 450,000m² taken up so far this year, compared to a total of around 650,000m² during the whole of last year. Market occupancy rates rose to above 93% at the end of the second quarter, from slightly below 93% at last year end. Rental levels are expected to remain largely stable due to the relative undersupply of modern facilities.

Spain's financial and real estate difficulties have been well documented. However the logistics sector remained relatively stable during the quarter, again due to under supply in key markets. Leasing market conditions in both Madrid and Barcelona remained tight, creating an upward pressure on prime rents that have so far countered any decline arising from the overall economic situation.

Moving onto Northern Europe, leasing activity remains evident despite slowing economic growth. Occupier demand in Germany has stayed strong, particularly in prime locations, with rental levels in Frankfurt and Munich both increasing due to limited availability. Occupier demand for large logistics facilities in the Benelux markets remained resilient due to the scarcity of land and high quality product. Again prime rents have remained stable or have increased slightly over the past year.

In the UK, demand for warehouses has slowed, with customers taking more time to complete transactions, although headline rents have remained stable so far, we see lease incentives increasing since last year. Speculative development has ceased almost entirely considered too risky, as a result of the drop in demand plus the impact of the new empty rates legislation, specific to the UK market, as well as the significant upwards movement in cap rates.

Finally, the central European logistics markets continue to show sustained levels of activity. Deliveries across the region were up 50% compared to the first six months of last year, with occupancy remaining stable at 90.5%.

Poland dominates the region in terms of both population and the size of its economy. The logistics market is developing strongly in six main regions in the country with Warsaw remaining the major market. Take up of modern logistics space remained at a high level, offsetting increasing supply and prime rents have started to increase.

Demand in the Czech Republic has softened slightly compared to last year, although rents have remained stable. The greater Prague region remains the most important market in the Czech Republic, although locations on the main transport routes to Germany and Slovakia are also developing.

The Hungarian logistics market has held up despite the re-emergence of economic uncertainty in the country recently. Build to suit activity in particular remains strong. Deliveries in the first half of this year exceeded the total for 2007, while market occupancy remains stable at around 90%.

I will now talk briefly about the investment markets. Activity had already weakened since the beginning of the year with transaction volumes around half the levels seen in 2007 over the same period. However the investment market has effectively been at a standstill since the beginning of October as a result of the well publicised turmoil in the financial sector. Previously investment in European logistics had been holding up relatively well in comparison to other asset classes. But as a result of the current period of 'Wait and See', valuation sentiment remains negative and yields are increasing across Europe, even in the absence of transactions.

It is as yet too early to say when this will ease, but there is still a significant amount of investment capital waiting in the wings for the current upheaval to pass, before going back into the market. These are mostly funds with committed equity available for investment and who are not wholly reliant on debt funding.

In terms of cap rates, the impact of declining consumer confidence and slowing economies was already beginning to become apparent with investment yields in the southern European markets increasing by up to 50 basis points compared to the

beginning of the year. With transactional evidence being scarce, we had also seen valuation yields moving out around 25 basis points in northern Europe over the summer. Yields in the central and eastern European region had remained stable up to the summer, but have also started to move out since then by around 25 basis points. Again with all of these figures I would emphasise that these movements correspond to what we saw in the last quarter.

As we have reported on previous calls, cap rate movement started earlier in the UK and the fall in yields stood at around 175 basis points prior to the hiatus at the end of September. The investment market had shown signs of improvement during the quarter with acquisitions by German funds in particular allowing a marker to be set at the prime end of the market. Yields on secondary assets continued to slide however and the spread between prime and secondary investments has now widened significantly from less than 50 basis points 18 months ago to closer to 200 basis points today. I should confirm that we consider our assets to sit firmly in the prime category given their age, specification and location.

Whilst on the subject of our portfolio, Gordon mentioned earlier that we have an asset recycling programme that in ordinary circumstances would average out at around €75-100 million of asset sales per year, or roughly 2-3% of the portfolio annually. This process has obviously slowed in the context of the current investment market. But while the number of investors active in the market today is reduced, there are still cash buyers out there and we are having discussions with selected parties on various assets within the portfolio which we expect to progress in the coming months.

With that let me hand back to Gordon.

Gordon Keiser: Thanks Simon. In this environment, I know it is difficult to find any bright spots, but we do have a fully leased portfolio of what we consider to be the finest quality logistics properties in Europe under conservative leverage and with no development exposure. We have initiatives under way to address liquidity and hopefully the share price will respond as progress is made.

I will now open it up for questions.

Operator: We will now begin the question and answer session. If you wish to ask a question, please press *1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the # key.

Your first question comes from Tom Gibney, from JP Morgan, please ask your question.

Question 1 : Tom Gibney, JP Morgan: Hi there. Just a few questions. The first one is to do with your refinancing plans. You sound like you have got the, you are planning to issue in the pfandbrief market to refinance your CMBS in July. I mean I understand that the conditions and application processes for pfandbrief are actually pretty onerous. Would you say you are actually ready to go once that market reopens? And then second of all, do you have you know, what happens if that market doesn't reopen, what would be your plan B for refinancing? And also could you give a little bit more detail and also remind me the PEP Fund II pfandbrief, you said, when exactly did they access the market and how much was it again? I know you said it, but I just missed it. And I have got a few more, but I will let you answer those.

Gordon Keiser : Alright, I will try and answer those. I remember the last one in reverse order. The one for PEP Fund II was €263 million. It closed in the early part of August and it was fairly attractively priced. I mean these take, even in normal times, any secured debt whether it is bank or actually the pfandbrief is also a bank financing, but that then takes a part of it and then issues it in the covered bond market. But it is a three month process. And back to your first question, we are actually in the process right now. We have a number, well 3-4 specific banks who actually are still very viable, they are not in a rescue plan, that are looking at the portfolio and are very interested. As with the PEP Fund II financing that we did back in August, we will probably end up with a small club group of three of these, four of these and that is exactly what happened with the PEP Fund II. Now obviously they are waiting to see what happens with Hypo. We understand that part of the German Government's €480 million rescue plan includes part of it that the pfandbrief market will be supported by guarantees if there were any evidence of a default. So I feel reasonably good, just because the market has been around for so long, maybe the pricing will increase, because it has been fairly competitively priced. Now I mean we have done a number of, you know the one on PEPR's books goes back to 2004 and

we had a development 2005. So but then let's move onto your question of what happens if the pfandbrief market never came back. That I think will really back into the bank market. Now the bank market, we would have to obviously have to rely on some of the relationship lenders. And I think that you know it could be pricey. So, but you know that is another avenue, you know there is another market out there which we keep tabs on and frankly we are thinking about it last year in October when we did the €500 million bond issue, what is known as the private placement market and it is basically US insurance companies who can issue in euros, but it is an unsecured market, but it is going to be the same pricing as we could do in unsecured markets. So, but anyway those are the things we are thinking of right now.

Tom Gibney: Well thank you, I mean also, my next questions are, you say in your release that asset disposals will resume once satisfactory pricing can be achieved. And how will you decide what is satisfactory? I mean markets only look like they are going one way at the moment, at what point do you feel that you should be stepping out there and making some disposals? Then also in terms of portfolio revaluations, I understand you have not done any in Q3, but what kind of magnitude of yield outshift do you think has occurred on a Europe wide basis for distribution facilities you know, prime distribution facilities like you have got?

Gordon Keiser : Yeah, let me add, I am going to turn this over to Simon who handles all of this. But in terms of what is reasonable pricing, I think it really depends on the assets in question. Obviously you like to price at least at NAV, but you know there are properties we would like to get more than that for. There are properties that maybe we would take less. It really has got to depend on those properties, so, but with that I will let Simon take it.

Simon Nelson: On the valuation question, I think I mentioned that we had seen yields in continental Europe moving 25-50 basis points since before the summer. I am loath to give predictions about where it is going to be at year end, if that is what your question is. It is clear that the investment markets have paused for the time being and as you say the market seems to be going in one direction. But I couldn't say how much more movement there is likely to be before year end, before the market settles again.

Tom Gibney: Right, thanks very much.

Operator: Your next question comes from Marcus Phayre-Mudge from Thames River Capital. Please ask your question.

Question 2 : Marcus Phayre-Mudge – Thames River Capital: Good

afternoon ladies and gentleman. My question was just about the purchases into II. I think you mentioned there were 25 acquisitions of which 21 were actually from the parent and four were from third parties. Is that correct?

Gordon Keiser : That is correct.

Marcus Phayre-Mudge: Can I ask, given the state of the market and given clear investor concern about your being forced to acquire anything, given what is going on in debt markets and the impact on the balance sheet as a consequence of any debt fuelled acquisition, what was the motivation for the four third party acquisitions which weren't effectively forced?

Simon Nelson: Could I say that the acquisitions budget for PEP II is approximately €1 billion and the €75 million that was actually deployed this year because that is the only acquisition that had been made into that fund from third parties during 2008 so far, they happen to have fallen into Q3, so you are seeing them all at once. Those €75 million were considered to be strategic long term locations in good quality buildings at pricing that was attractive. What we are seeing is that as the markets are loosening, there are opportunities to get hold of assets which are not otherwise available for purchase and as a long term investment strategy, that was considered the right thing to do. But I would again emphasise that PEP II has been keeping its powder dry in third party acquisitions as it said it would over the past 6-9 months. So that €75 million is a very small number compared to the total acquisition capacity that that fund actually has.

Marcus Phayre-Mudge: You have led me onto another question about capacity, what happens if the world does get materially worse which clearly the stock markets and debt and credit markets around the world think is going to be the case and we are going to go into a pan European recession of potentially significant magnitude, what happens if there are no buildings built by ProLogis and therefore or they are built and not leased? The Fund would end up being a bit smaller

presumably because you would get to August 2010 and it just won't be filled. And that is as an investor, I breath a sigh of relief is that is the case as things stand at the moment. You know, there is no need, you talk about a budget etc, but am I right in thinking there is no actual requirement to complete this exercise regardless?

Gordon Keiser : That is correct. Now, I don't know if you listened to the ProLogis Call, they did go into discussion of what their European development pipeline was and obviously significantly less than you know what a leveraged purchase would be for the remaining size of the fund. The fund also has the ability to fund in all equity, but your hypothesis is correct.

Simon Nelson: I would add however that in the third party acquisition market, it maybe that in 2009 and 2010 there are opportunities that should not be passed over. So while the development pipeline may dry up, you know again as a long term investor, we should be looking at buying in the down cycle as much as possible.

Marcus Phayre-Mudge: Yeah, well that is actually going to be a function of the resilience of your tenant base. But a couple more questions if I may. The first is you give a gross yield number, can I have the net yield number please? The 7.1 gross is, we work in the UK Simon as you are well aware and I get frustrated by, what is the point of giving me a gross yield number when the net is what I am actually interested. Could you please give me the net yield on those 25 acquisitions?

Simon Nelson: Off the top of my head, it was approximately 6.85-6.9, but looking at it, sorry 6.73.

Marcus Phayre-Mudge: Okay, thank you and which, I would be interested, well when we come onto this call in three months time, where we think markets have got to. Could you just move on and talk about your vacancy and tenant role over this quarter? Presumably there hasn't been any. And I think last time you obviously had Wakefield, there were a couple of other buildings where tenants had gone bust and you were in the middle of re-leasing them. Were you successful in re-leasing those? There was one in Italy and one in France I think?

Simon Nelson: That's correct, the building in France has been re-let, so that is already leased. Wakefield is being re-let, we are in discussions for re-letting on a short term basis. So that is income short-term coming through. The Italian asset, well they are technically in default rather than bankruptcy and we have initiated court proceedings in order to resolve that. So they are still in the building, so it is not a building that we can re-lease today.

Marcus Phayre-Mudge: Okay thank you.

Operator: Your next question comes from Rud van Maanen, from Rabo

Question 3 : Ruud van Maanen – Rabo: Good afternoon gentlemen, I have a question regarding your guidance given. You gave a guidance of €0.76 or €0.80 and I look at the previous quarters of €0.18 and I add up, that is for the fourth quarter, I would come out below that guidance. What would be the difference in the last quarter that you would meet this guidance?

Gordon Keiser : Well obviously we would get there with €0.19. It was a little over €0.18 even, getting into hundredth of a cent, but it was actually €0.1813 or something but we actually had a little higher occupancy. The currency is a little more stable. I mean it is really at the margin that would get you to the €0.19 and then if some of these occupancies actually you know like we just talked about, with the one signed October 1, could actually move you conceivably above that. But right now we would be thinking more in terms of the €0.19.

Peter Cassells: That is correct and I reiterate that. We have expectations of additional occupancy from what Simon mentioned on the short-term lease in Wakefield. So we are still confident of achieving that. And just to reiterate that is also Q2 had the one time hits from the right offs of the bad debt as well. So they were I would say, artificially down on Q1 and even some of the quarters of last year. So which may be better reference point.

Ruud van Maanen – Rabo: Okay, I had another question regarding the underlying distribution markets and obviously your largest tenants, the 3PL's. What is your currently hearing form them? Are they getting more difficult or turnover is going

down or distribution going down, that they get more in trouble or can you elaborate a bit on that?

Simon Nelson: No we are not getting signals that they are in trouble. What I have mentioned and what is the case is that decisions are taking longer to be made and implemented.

Gordon Keiser: And I would say that whether it is a release base, but particularly on the new space and of course that is not what we have. I mean that is what ProLogis has. But along those lines, the three defaults that we have and obviously we mentioned the one in Italy as a strange case. They weren't in bankruptcy, they just decided to leave. But they still have a lease. The other two were small 3PL's, family owned. Now we looked at and through our entire portfolio, we only have a couple of those, less than 4% I think of our whole rental income. If you look at our top 25 customers, you do find a heavy dose of larger 3PL's and even though I think we saw, something sent us something on TNT or actually it wasn't really on the company that occupies our space. But I think it was a Rabo research piece that talked about them and actually their earnings were increasing in 2010 after a dip in 2009, but that was more of a, may have a slight earnings decrease, but they are still very, seen as a very viable company as what we know all of the larger 3PL's that are a major customer base.

Ruud van Maanen – Rabo: Okay that will be all gentlemen, thank you.

Operator: Your next question comes from Boudewijn Schoon, Kempen.

Question 4 : Boudewijn Schoon – Kempen: Hi, good afternoon still. I had a follow up question on the yield, the 6.73 that you mentioned. I know that you state yields including or excluding transfer duties. And after operating costs as well. Is that yield, is that after operating costs or after transfer duties?

Simon Nelson: No the net yield would be the net rent over the gross purchase price, as opposed to the gross yield being the gross rent over the gross purchase price. So

Boudewijn Schoon – Kempen: And the purchase price, would that in your calculation include the transfer duties or exclude them?

Simon Nelson: The gross purchase price would include the transferred duties.

Boudewijn Schoon – Kempen: Okay, thank you very much. Another question I might want to ask is when these assets are put into the Fund, Fund II, who is responsible for the valuation of the assets?

Simon Nelson: The valuation is commissioned for the fund. Do you mean who the valuers are?

Boudewijn Schoon – Kempen: Yes that is what I wanted?

Simon Nelson: The PEP Fund II has a pool of five valuers, three that are used for the time being are Jones Lang La Salle, DTZ and CB Richard Ellis.

Boudewijn Schoon – Kempen: Okay thank you. And another question. I saw that the re-lettings were positive, yet if you look at the overview, the estimated rental value is actually below passing rent. Could you elaborate a bit on that?

Answer: Boudewijn you are commenting on the ERV version of the current in place rent?

Boudewijn Schoon – Kempen: I went through the press release and I saw that you had released a number of buildings, that you realised a rent at least equal or higher than the contract rents. So you realised a rental uplift on these renewals. If I look at the overview of the portfolio, you do see some negative reversion potential, because the estimated rental value is below the contract rents. And I was wondering if you could elaborate a bit? I mean is this incidental or is the negative reversion on the more recent leases?

Simon Nelson: Okay, I understand. So okay you are talking about the over renting on the entire portfolio, not the 21 transactions that we just did?

Boudewijn Schoon – Kempen: Yeah I mean, well the new lettings they were actually reflecting a rental uplift so I was wondering where that came from?

Simon Nelson: Right. Well there are two things, two dynamics within the portfolio. Our portfolio is, has, the over rented nature of our portfolio has generally declined in the last year or so. However there are instances where indexation that is applied to our rents on continental Europe is still making the in place rents higher than ERV. This is particularly the case in France where we are linked to the cost of construction index which again rose by 8% in the last published index value. So we are just over 3% over rented across the portfolio. However, rents, ERVs, market rents are beginning to rise in some markets. So we expect this to burn off over time. And secondly, as we renew we are coming back to market rents in general.

Gordon Keiser: And even on those 21, we are, they are either flat or slightly up. As Simon mentioned, you would not really see that, and these are slightly up into the future anyway. It would not have happened in the third quarter.

Boudewijn Schoon – Kempen: Okay, so it is more particular for these particular lettings. Okay, yeah I guess you already elaborated on the re-financing and the possibilities, I mean when do you think, you also said fourth quarter, we can say more about 2009. I mean is that, I mean is that realistic? Do you think you know more about financing costs in the fourth quarter?

Gordon Keiser: Well as I mentioned, we plan to release the guidance at the same time as we did last year which is on the fourth quarter call, which would be I think February 5th. By that time, certainly the budget will be approved and we will have a much better handle on the financings as well as any dispositions that might be going on. We want to try and incorporate all of that in the guidance. So I know we have ratcheted it down this year in July. So we are trying to come as close as possible this year, but I would look for that not before our earnings call for the fourth quarter.

Boudewijn Schoon – Kempen: Well okay, thank you very much.

Operator: Your next question comes from Tom Gibney, JP Morgan. Please ask your question.

Question 5 : Tom Gibney – JP Morgan: Hello again. Just a quick question on ProLogis. I wasn't able to listen to their call. I mean how much exactly have they scaled back their European development pipeline? I understand it was going to be 6-7½ billion. Is it now below that 6 billion and how much of it is remaining, you know that the PEP Fund might have to invest in?

Gordon Keiser: I forgot exactly the numbers they were using. But what they did say was that they are scaling back the overall starts. And I believe that is for 2008, the 2.3 – 2.6, let me confirm that, but hold on a minute. That is for 2008. Originally they were talking about 4.4 to 4.9 billion US in starts in 2008, that has now almost been cut in half to 2.7-2.9. Now that is globally. Now as far as Europe goes, they announced earlier, they cut out anything in the UK except for speculative development. I don't recall exactly what the numbers were for Europe or if they mentioned us specifically. I do recall they did mention an overall pipeline number which would include not only the starts, but those that were already completed in the lease up phase. But I do recall that number being, and they are using dollar terms of course, a billion and a half, two billion dollar range, but would have to look at that.

Tom Gibney – JP Morgan: And also on ProLogis again, their CDS strategies have widened very substantially over the past three weeks. I was just wondering if perhaps you could give a comment on that and as to why you think that has happened?

Gordon Keiser: Well they did address that on the call and I will just repeat what they said. And that is you know ProLogis issued convertible bonds, on the side, billion US in convertible bonds out there. The most recent ones were in May 2008 so 4-5 months ago. They issued in November I believe '07 and March '07. What has happened there, once equity prices started falling, the investors in convertibles are all hedge funds. Once the equity prices started falling, the hedge funds then started hedging the debt components, so they were hedging it with CDS, So there was a massive amount of CDS demand from the hedge funds which drove ProLogis' CDS far wider than say the other comparables if you look at the top 5-6. And most of them had either none or very limited convertible bond issuances.

Tom Gibney – JP Morgan: Okay, that sounds reasonable. Thank you very much.

Gordon Keiser: I think we can take another question. You got somebody online?

Operator: There are no further questions from the audio.

Question 6: Miriam Wijnands of Fortis Bank: I have a number of questions. The first one is about the income statement. Could you elaborate on the €5,998,000 loss on share of associate. More detail on that please?

Peter Cassells: Hi Miriam. A lot of the detail is already on page 21, where we summarise the income statement for the three months and nine months of Fund II, this is the additional disclosure for this quarter. You will see that for the three months Fund II has made a loss of about €20 million. IFRS loss, a lot of that was driven by the fair value adjustments for the in place properties and also those acquired during the quarter. The biggest part of the adjustments during the quarter was the accounting for the purchases costs on almost €400 million of properties acquired during the quarter. What that resulted in, as I said, a €20 million accounting loss for the quarter, our 30% share of that is the €5.9 million that you asked the question about.

Miriam Wijnands of Fortis Bank: And the second question is, do the 68% of leases not to be excised by Q1 '09 mean that 32% will be terminated?

Simon Nelson: Actually we know that 68% of the leases will not serve notice. 26% have served notice today and 6% are still pending.

Miriam Wijnands of Fortis Bank: A final question is on, should we see revaluations in PEP II for Q3 as a metric for the direct portfolio as these have not been tested this quarter?

Gordon Keiser: Not really. The problem is that PEP II has been revalued over a year ago PEPR has had two valuations, one in December and one in June. That is why you can't compare them direct, those percentages. Because PEP Fund II

basically only has its properties revalued once per year. They do it almost like a rolling 25% or so. But so it really would depend on those properties and how long since they have been revalued and most of those in the PEP Fund II revaluation property were a year older where most of the PEPR ones had just been revalued three months ago.

Simon Nelson: I would say in particular the PEP II revaluations were firmly weighted to central Europe. So that metric should not really be applied across the board to the PEPR portfolio because the different markets are going to be showing different results clearly.

Jennifer van der Eem: Heidi that is all the questions on the webcast. Are there any more on the phone?

Heidi: There are no further questions.

Gordon Keiser: Okay well with that, we thank everyone for joining the Call and look forward to getting back together February 5th. Thanks.

End