



First Quarter 2010 Financial Results Transcript
Thursday 22 April 2010

Jennifer van der Eem: 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.

Peter Cassells, CEO, will give an overview of general performance and outlook, David Doyle, CFO, will cover financial performance and finally Simon Nelson, Head of Asset Management, will talk about operating performance and market outlook. At the end of the presentation we'll be happy to take your questions from either the call or online. Peter please begin.

Peter Cassells: Good afternoon everyone and welcome to our Q1 results call today after what has been a busy start to the year both from an operational and debt management point of view. We are pleased to have maintained high occupancy levels and to have enjoyed significant leasing activity in the portfolio in the first three months of 2010 despite the continuance of one of the toughest markets in recent history. Occupancy at the end of the quarter was just shy of the 95% level, in line with our budgeted projections. That being said, we are under no illusions as to the reality of today's market conditions and have seen further pressure come to bear on rents and lease terms as the traditional occupiers become more selective and seek to manage their needs opportunistically. On a positive note, this rush to take advantage of lower rents and attractive incentive packages may be relatively short-lived given the declining supply of modern, prime quality properties.

In Q1, PEPR maintained the pace of leasing activity which typified the trend of last year. Thanks to the strength of our customer relationships and the quality of our well-located assets, we can report a retention rate for the quarter of 61% as well as having signed 10 new leases covering over 125,000 square metres, which Simon will

provide more detail on later. Overall for the quarter, we signed or renewed over 30 leases covering in excess of 450,000 square metres. We are similarly pleased to report a good quarter in terms of accounts receivables with no bankruptcies among our customers for the period. That said, we agreed an early lease termination payment with a customer in difficulty. Furthermore, the balance of our accounts receivable at the end of the quarter in the 60 day plus bracket remained stable with that at the end of 2009.

With regards to financing, PEPR has radically improved its debt profile compared to this time last year. On recent calls, we provided extensive details on the various debt financings closed in 2009 and earlier this year. Without going into too much detail again, it is worth pointing out that we have now completely taken care of all our debt maturities out to December 2012. This was achieved at a time of limited availability of financing alternatives and, for many others, continues to remain a challenge as the debt capital markets remain tight and conservative. As you can see from our earnings release this morning, we have fully repaid our outstanding obligations under CMBS III of €24 million by the end of the quarter. And since quarter end, we have also repaid the remaining €54 million of debt owing under CMBS IV. Both actions result in the freeing up of €200 million of properties to the unencumbered asset pool and bring to an end our use of this form of structured financing which has proven extremely cost-effective over much of the last ten years. Additionally, we also repaid €20 million of our 2012 debt, reducing that obligation accordingly. Overall, our corporate leverage or loan-to-value ratio at the end of the quarter has come down to 53.7% from 55% at the end of 2009.

As a result of the significant progress in our debt refinancing, combined with the quality of our portfolio and our plans to reduce our debt levels still further, Moody's rating agency recently changed its outlook for PEPR to stable from negative. We see this as a positive move and a transitional step toward achieving our stated priority of a return to an investment grade rating. Although Moody's concluded that PEPR remained a Ba1 credit in their report of 17 March last, the methodology they applied in their report produced an indicative rating two notches higher than that at Baa2, equivalent to triple-B flat.

As far as the outlook for the industrial property market is concerned, we believe that demand for warehouse space will remain weak until at least the second half of the

year. What demand there is in the market is coming from the consolidation and the re-configuration of supply chains. A lack of available development financing and uncertain demand has significantly curtailed speculative development over the last 24 months leading to a virtual halt of new supply in certain parts of Europe, with the exception of specific build-to-suit contracts. Furthermore, developers are unlikely to start building again anytime soon on anything but a pre-let basis given current pressures on rents and occupancy.

So what does this mean for PEPR? We believe that with the growing level of obsolescence of older, smaller facilities and the ongoing reconfiguration of supply chains especially as a means to cut costs, demand for modern, well-located warehouses, such as ours, should appreciably improve.

What's more, we are encouraged by the recent reports of an increase in global trade, including China's recently reported return to double-digit growth in the first quarter. While the effects may not be immediate, there is a distinct correlation between global trade and demand for warehouse space. The same is true for GDP growth, which has a knock-on impact on demand for warehouse space. As GDP recovers over the short to medium term, and at varying degrees depending on region, we would expect to see demand and eventually rental values recover from their current level.

I would like to sum up by reiterating how pleased we are with the progress we have made in strengthening our balance sheet and in maintaining our occupancy levels. Our focus in 2010 is to ensure that we benefit from improvements in occupier demand and continue to drive cash flow from the portfolio through proactive asset management and exemplary customer service. We will make every effort to preserve our strong levels of retention while maintaining rental income as high as possible in the current climate.

Before I hand over to David and then to Simon to take you through the results and our markets in more detail, I would like briefly to cover the items to be voted on at our upcoming AGM on the 20th of May. The voting papers are expected to be distributed on 28th of April and cover the re-election of Mr Pierre Rodocanachi, as independent Board member; the approval of the 2009 Annual Report; the approval of the appointment of Ernst & Young as PEPR's auditors for 2010, and the proposed amendments to the management regulations in order to follow through on the

initiatives from last year to modernise our corporate governance structure and increase investor involvement and influence. All proposals have been unanimously approved and recommended by our Board.

With that, let me hand you over to David to take you through the financial results for the quarter. David?

David Doyle: Thank you Peter. I am pleased to say that we have reported results today that are broadly in line with our 2010 guidance and we have maintained our guidance for the full year.

We have reported IFRS profit of €22 million for the first quarter compared to €29 million in the comparable period. There are three main drivers of the decline; firstly the impact of last year's portfolio sales and our extensive leasing activity on total revenue. Secondly, an unrealised adjustment to property fair value movements in the quarter, and finally €3 million of higher taxes. More on these in a moment.

EPRA earnings for the quarter, which seeks to provide a better indicator of our underlying performance, decreased to €21 million from €29 million in the prior period. The reasons for the decline are similar to those for IFRS earnings including €1 million of higher accelerated loan amortisation costs. EPRA earnings for ordinary unitholders are further impacted by the €1.6 million preferred dividend, taking EPRA earnings per ordinary unit to 10 cents compared to 15 cents for Q1 2009.

Reconciliations between IFRS and EPRA figures are provided in today's press release. Turning then to a review of the major components of our annual first quarter results.

The €6 million decline in rental income from €68 million to €62 million, primarily resulted from the loss of €4 million of rental income from last year's portfolio sales together with the impact of lower rental levels and slightly lower occupancy. As previously mentioned, we expect rental income to come under pressure during 2010 as market dynamics stabilise and we continue to roll leases back to market.

Partially offsetting these declines, and included within other property income, is a one-off receipt of €2.6 million following the finalisation of insurance and legal claims

related to properties in Hemel Hempstead in the UK, that were damaged in the Buncefield Oil Terminal explosion at the end of 2005.

Turning to expenses. Our total property related expenses remained broadly flat between the two periods at just over €6 million. Within this category, "other property rental expenses" increased by €1 million due to the fact that we recovered an unusually high levels of rental expenses in the prior year. If you look at the full year 2009 and prior period figures, our Q1 2010 figure reflects a more normal run rate. Property management fees for the quarter, improved by €1 million as a result of the reduction in portfolio value and asset sales since Q1 2009.

Fund expenses increased marginally between the periods, primarily due to the write-off of €½ million of costs associated with a potential second preferred equity raise. Whilst we always had the strength of our conviction to deliver on our secured financing targets, we were, of course, conscious of the extremely tight and conservative capital market environment we were operating in. Accordingly, at the start of the year, the PEPR Board and management team considered it prudent to prepare for a further preferred equity raise as an alternative source of funding in the event new secured financing initiatives faltered. Given our success in finalising all of our targeted secured financing packages, we have now concluded that there is no longer a requirement to continue that process and as of today have no plans to pursue a second preferred equity raise. That is said, importantly, we obviously retain the flexibility to raise additional equity, if appropriate, in the future.

As mentioned at year end results, property and fund related expenses as a whole should remain relatively flat in 2010 given the increased stability in property values.

Whilst no portfolio revaluations were carried out in the first quarter, PEPR incurred a somewhat technical €1.3 million gross valuation loss on property related to capital expenditure and rent levelling adjustments incurred during the quarter. These items impact the historical cost property values but then need to be reversed out as the IFRS open market value for property has not changed. Of course in real life, these expenditures do add value which should be reflected over time in future revaluations.

Turning to finance income and costs. The decrease in finance income from €1.8 million in Q1 2009 to €200,000 for this quarter is primarily due to the €1.3 million PEPF II dividend received in the prior period.

Overall, finance expenses decreased by 11% to €26 million from €29 million in Q1 2009. Within that our pure interest expense decreased by almost €3 million to €23 million, primarily as a result of our deleveraging initiatives. We repaid and rescheduled substantial levels of debt between the two periods although our weighted average cost of debt increased slightly over the same timeframe. In broad terms, our Q1 2010 interest expense is some €4 million lower than in 2009 due to lower levels of debt, offset by €1 million of higher interest as our average interest rate increased to 5.2% compared to 4.8% in the prior period.

This decrease in interest expense was partially offset by a €1.1 million increase in amortisation costs due to the accelerated amortisation charges related to the early repayment of the first tranche of the senior unsecured facility and the reduction in the revolving portion of that facility from €300 million to €200 million. This acceleration has in effect just brought forward the amortisation charge into the first quarter rather than spread over the remainder of 2010 as both portions were due to mature in December this year.

As mentioned in February, we expected our interest costs to increase in 2010, not least due to the 175 basis point increase in the coupon on our €500 million Eurobond, to 7.625%. As you know, this increase came into effect as a result of Moody's downgrade of PEPR to Ba1 in June last year, and remains in place until we return to an investment grade credit and even then would only become effective on our annual interest payment date in October. As Peter has already commented, returning PEPR to investment grade is a management priority for 2010.

In addition, our average interest rate will be impacted by the fixed rates achieved on new debt facilities of between four to six percent and the expectation that a higher proportion of our debt will be at fixed rates of interest in the future. Whilst dilutive in the near term, we believe base rates could increase quickly if inflationary pressures come to bear and as you all know we have consciously chosen to swap all of our new facilities into fixed rate exposures.

Finally on the income statement, we recorded a net tax charge for the quarter of €6 million, a substantial increase compared to the €3 million charge in the comparable period. Most of this increase is due to a €2 million reduction in the deferred income tax benefit as 2009 benefitted from higher levels of tax loss recognition versus a utilisation of tax losses in 2010. Further the current income tax expense increased by €700,000 to €6½ million, between the two periods and represents an effective tax rate of 23.6% for the quarter, using EPRA earnings as a proxy for taxable income, up from the 19.9% reported for full year 2009. This increase in the current tax charge and effective tax rate is primarily due to taxes on unrealised foreign exchange gains and the recent settlement of prior period tax returns together with the reduced availability of tax losses absorptions across various jurisdictions and lower levels of interest deductibility as loans at asset owning company level are repaid.

The higher Q1, effective tax rate is also impacted by the non-deductibility of certain costs (including the accelerated loan amortisation charges) and rental income declines arising in entities with existing tax losses – thus lower earnings are not always translating directly into lower taxes.

All that said, and as I commented on our last earnings call, PEPR will continue to pursue strategies to manage its tax expense and we anticipate a slightly lower full year income tax charge (and thus generally consistent effective tax rate) than that incurred in 2009.

Before I hand over to Simon, I'd just like to take a brief look at our capital structure. Our balance sheet is in a significantly stronger position than a year ago following the substantial refinancing activities and deleveraging achieved through the period, with our loan-to-value ratio at the end of March below 54%. Consistent with our objective of achieving a rating upgrade we expect to reduce this further towards 50%.

With that, let me hand you over to Simon to cover our operational achievements and provide a market outlook.

Simon Nelson: Thank you David.

The main news this quarter from the operational side of our business is that we have once again carried out a remarkably high level of leasing transactions across our

portfolio, in what nonetheless remains a difficult and challenging market. During the first three months of the year, we signed 31 transactions on over 450,000 square metres of space, certainly the largest quarterly volume we have accomplished to date.

Of these, despite a generally soft market, 10 transactions were new leases on a total of around 125,000 square metres, including deals with such household names as Samsung and GE Lighting, as well as existing 3PL customers such as Wincanton and UPS. 54,000 square metres of this amount was previously vacant space.

Samsung and GE are two examples of what may be indicative of a growing trend of end users returning to direct control of their supply chain; in both cases our buildings in Schiphol and Tilburg were previously operated on behalf of the two companies by their respective third party logistics operators. In renewal discussions on these leases, our contractual relationship switched to the end user, and we signed new leases directly with the ultimate occupier in each case, diversifying our customer base and adding these blue chip covenants to our portfolio in the process. We tend to see longer lease length when the end user is the direct counterparty and this was certainly the case with Samsung where the new lease has an initial period of seven years.

The other 21 transactions, or 327,000 square metres, related to renewals of existing contracts with customers such as DHL, Ceva, Fiege, DSV and Norbert Dentressangle, but also Viva Manufacturing in Poland, Covidien in Germany, and Teleplan in the Czech Republic.

Of these lease renewals, six related to early renewals of leases with break dates beyond the end of this year. As I have stated on previous calls, in situations where we have a viable and desirable long-term customer in a market where we do not currently feel it advisable to take leasing risk in the coming year or two, we are agreeing early renewals and extending the lease lengths in instances where customers come to us to ask for such a deal. Although this may create a drag on this year's NOI, this is value enhancing given the removal of future leasing risk and additional medium term security of income. This explains some of the increased volume of leasing activity, over and above the leases that we had forecasted to roll during 2010.

However, while we remain absolutely focused on maintaining our occupancy at levels in excess of market averages, our appetite for these early deals will diminish as the leasing markets stabilise and there will be a tipping point at some stage this year when it will no longer be appropriate or necessary to renew early and our preference may be to take the future risk in order to be able to drive rents in a positive direction again. I don't believe we are there yet, but we have not lost sight of that objective.

In the meantime, the lease contracts that were signed this quarter reflected rents on average 11% lower than the previous in-place rent on the buildings concerned. This decrease is slightly larger than the amounts seen in the last couple of quarters, but still remains at the lower end of market movements over the duration of these leases. As a result, the over-rented component of our portfolio, which was estimated at around 7% in the December valuations, has reduced to 5% after the first quarter re-leasing activity.

At the end of March, occupancy levels across the 232 buildings in our portfolio stood at 94.8%, down slightly from 96.1% at the end of December. The difference of 1.3% represents around 64,000 square metres, or just a little more than the amount of new leases signed on previously vacant space during these past three months.

The reduction in occupancy is mostly in three areas; in the Czech Republic and Hungary, where the markets remain extremely quiet; in the Netherlands, where there are pockets of oversupply but where we succeeded in leasing 21,000 square metres to UPS in Venlo last month, and in the UK, where we had a customer move out of a 21,000 square metre building in Rugby. This is a well-located building in a core Midlands market and we have current discussions with two potential occupiers.

The retention rate for the leases scheduled to roll during the first quarter was 61% in line with our forecast that this year's retentions will be returning more in line with the long-term average of 60-65% that we have mentioned previously.

On rent payment arrears, the indicator that we have been tracking on the past few calls – the arrears over 60 days – has remained stable compared to the last quarter, again significantly down from the €3.1 million number this time last year. This remains an ongoing focus.

Although we formally had no instances of bankruptcy during the quarter, we did take back a building in Eemhaven, in Rotterdam. With a customer in difficulty, we agreed to an early lease termination and a six month rent penalty rather than risk a lengthy legal procedure. The unit is well located in the port of Rotterdam, and we have already initiated discussions with interested parties.

Turning to what we are seeing in the markets in general, both in the capital markets and on the occupier side:

As we said on the last call, although investment activity in 2009 was at only half the levels of the previous year, the low point was in the first three months of last year, with each subsequent quarter seeing increasing levels of transaction volumes. This trend has continued into the first quarter of this year, with activity now at twice the level of the equivalent period a year ago. Demand remains concentrated on the prime end of the market, with observers estimating a ratio of active investment capital to market opportunities of approximately three to one. As a result of this competition for prime product, yields at the top end of the markets in Western Europe have trended downwards from the high point of Q2/Q3 last year, by up to around 50 basis points in the core markets of France and Germany. Deal flow is becoming more regular and there were arms' length, non-distressed market transactions in both Spain and Poland during the last three months, a reflection of returning investor confidence across all markets.

Given the high level of recent inflows into the UK institutions and German open ended funds in particular, we believe that the weight of investment capital will be at least maintained in the foreseeable future, which will keep prime yields at or maybe slightly below their current levels. However, there is still little demand in the more secondary markets for older or less well located buildings unless there is staple financing in place. It is likely that activity in that part of the market will start to come through during the course of the year as prime product remains scarce and secondary vendors' pricing expectations may soften and tempt investors further up the risk curve.

In the UK, the market appears to have paused for breath after the significant bounce in values witnessed during the last six months of last year. Yields for prime logistics

on institutional leases have stabilised at around 6%, over 175 basis points lower than twelve months ago.

On the occupier side, I will again just concentrate on the major trends that we are seeing across the European markets.

- Although demand remains soft throughout Europe (particularly in Spain and parts of Central Europe), take-up is remaining comparatively stable, while the decision-making process is beginning to shorten. The market is still largely driven by companies looking to upgrade space, cut costs and take advantage of current market conditions in order to obtain supply chain efficiencies. As a result, net absorption remains limited. That said, there is an increasing awareness in some markets that the window of opportunity that is currently favouring occupiers will not be open indefinitely.
- The most active sectors for distribution demand remain the retailers, discount fashion, food and internet companies.
- Market vacancy rates remain between 5 and 10% in Western Europe, around 10% in the UK and up to 20% in Central Europe.
- As we discussed on our last call, headline rents fell by around 7% on average last year across continental Europe, with France and Germany being relatively resilient and much larger falls of upwards of 20% in some Central European markets. However, the rate of decline lessened in the last quarter of last year and there was apparent stability in some markets during the first three months of this year, suggesting that the worst of the fall in rental values may be behind us.
- Rent incentives appear to have stabilised but at relatively high levels of 6-12 months for a five or six year lease commitment.

But this is not a litany of downward trends and negative indicators. I would again draw attention to the other side of the equation, namely the sharp fall in new development pipeline that we have been highlighting in the past few calls. Construction starts in the Czech Republic, Hungary, Poland and Spain are all down over 90% compared to this time last year. The Benelux is down more than 50% and France more than 30%. Only Germany, where the market has traditionally had a significant share of owner occupiers, is showing a figure anywhere near the previous year's level.

As rental values begin to stabilise and the overhang of available, modern supply starts to be absorbed as demand picks up, there will be a shift in balance – likely in the latter half of this year - that will allow us to take a more aggressive stance on rental values. In the meantime, we have achieved a phenomenal level of leasing this quarter and will remain totally focused on maintaining high occupancy and leveraging our customer base.

With that let me hand back to Peter.

Peter Cassells: Thank you, Simon.

Before we open it up to questions, let me take a few moments to set out the main points from today's results.

- We have maintained high levels of occupancy and will continue to solve for this within the context of an occupational market set to remain challenging throughout the course of 2010;
- We have radically improved our debt profile from this time 12 months ago, with no maturities until December 2012;
- With the recent shift in ratings outlook to stable we have taken the first step on the path to return PEPR to investment grade;
- We are convening the 2010 AGM with the objective, amongst others, to modernise the corporate governance structure; and
- We confirm that our earnings are in line with guidance previously issued for 2010.

As you will have heard today, the worst appears to be over in terms of valuation and market rental rate declines and we are very encouraged by the level of activity experienced during the first quarter. While market and economic indicators are beginning to point to positive elements which will work through to our markets towards the latter part of the year, we are under no illusions that 2010 will continue to be a challenging year for our industry. Our priority remains to ensure we benefit from improvements in occupier demand and consolidate our market leading position.

With that, let me 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 Jaap Kuin from RBS, please ask your question.

Question 1: Jaap Kuin, RBS: Good morning. My first question is on the Moody's rating. When do you expect Moody's to revisit the rating of PEPR?

Answer: David Doyle: We spent some time with Moody's during the course of the first quarter and will be going to spend some more time with them following the announcement of these results in 2-3 weeks time. You know I would certainly encourage you to read their Report that they issued in March. We are exploring a range of options. Clearly the removal of the negative watch and onto a stable outlook is an important first step. We will continue to explore a range of options and engage with them in discussions on what we need to do to achieve that objective of returning to an investment grade credit. Clearly in exploring those range of options, we will be absolutely driven by what are the best long-term value decisions for the company.

Further Question: Jaap Kuin, RBS: Okay thank you, and do you expect an outcome of that process in the second quarter or will it be more towards the third quarter?

Answer: David Doyle: I could not predict on timing.

Further Question: Jaap Kuin, RBS: Okay thanks. And then my second question on dividends. You say there will be no dividends for 2010. I guess this is a pretty forward-looking question, but do you have any idea what will determine your year 2011 dividend policy and when we can begin thinking about that?

Answer: David Doyle: I don't think anything has changed particularly since the call we had with you on the year end results. Just to reiterate that, as you all know we currently have a blocker on paying a dividend that is attached to the 2012 maturity. So the first thing that needs to happen is that that blocker in the 2012 debt maturity needs to be removed either via full repayment of that maturity or renegotiation. We are clearly linked with our objective of returning to investment grade credit, continuing

to look at that 2012 it is a priority that we put the business into a position that it is in a position to be able to return paying a dividend as soon as is possible. So again there is no specific timing on that. The first step is to remove the dividend blocker and then move forward from there. But we are very, very clear that we would like to put the company back into a position of paying a dividend as soon as is sensible and prudent to do so.

Further Question: Jaap Kuin, RBS: Okay, thank you, that is very clear. And then my last question is on the guidance you have issued. It is 45-50 cents and given the results for the first quarter, that is an implicit increase in earnings per quarter for next coming three-quarters. So where do you actually expect that the increase in earnings per share to come from?

Answer: David Doyle: Well there were a few one off items in the course of this first quarter. It is across the board that we expect to see, I have given some indications and clues both in terms of the input in the press release and also in the comments that were made today. You are absolutely right to say that implicitly if you are at 10 cents a share in Q1, four tens are forty and that is marginally below the guidance of 45-50. But equally it is marginally below and given all the moving pieces, our expectation at the moment is that we will be within that range of full year guidance still.

Questioner: Okay, thank you very much.

Operator: Your next question comes from Stephen Vlek from Fortis Bank, please ask your question

Question 2 Stephen Vlek, Fortis Bank: Good afternoon. This is Stephen Vlek from Fortis. I have one question. In the press release you comment on the possibility of a yield compression in the Western European markets. I wonder if you could comment on which markets specifically you are expecting yield compression? So is that Netherlands, Germany, France?

Answer: Simon Nelson: The answer is all of the above. The core markets of Western Europe are currently experiencing the effect of strong investor demand so we are seeing cap rates move particularly in France. We have seen them move in

Germany. There have not been quite so many transactions in the Benelux as yet, but I would certainly expect that to benefit as well. And also frankly Sweden as well, there is currently strong demand. The interesting news from this quarter is that not only have those core markets benefited from value increases in terms of cap rate compression, but we have started to see transactions in the other markets which were lagging behind in terms of that recovery. There were transactions in Poland and there was a transaction in Spain both of which were done at market levels which were between 8-8½%. So levels that were much lower than many of the more pessimistic market observers were anticipating.

Stephen Vlek: Okay, thank you. Those were my questions.

Operator: The next question comes from Ruud van Maanan from Rabo, please ask your question.

Question 3: Ruud van Maanan, Rabo: Hello, this is Ruud van Maanan. I have a couple of questions. You seem to have some budgeted projections for occupancy. Can you give some colour on where do you think the trough in occupancy lies and in which year would this be?

Answer: Simon Nelson: Sorry, I missed the last part of your question. In which year did you say?

Ruud van Maanan, Rabo: Yeah, when do you expect the trough in occupancy to be reached within PEPR, what is your current projection? And are we close to the bottom or do you expect this still this to decrease much?

Answer: Simon Nelson: I believe we are in it. And I think it will last for perhaps another couple of quarters. We are seeing the flip side if you like of the exceptionally high retention rates that we had last year, many of which were a result of customers putting off decisions. As the markets have opened up this year and there is increased confidence and increased visibility as to the direction things are going, you know we are seeing a return to normal business, which is why we have been saying, the return to normal retention rates is probable. So that is why there has been increased movements this year. And I think there will be a period of say six months until the positive macro economic and general growth indicators start to produce a tangible

and lasting effect on the demand side of our markets. And so for that period of time, we will have the trough as you call it.

Further question: Ruud van Maanan, Rabo: And do you see existing tenants move towards new build-to-suit developments or do you expect this to happen?

Answer: Simon Nelson: There are always you know cases of customers changing and going for build-to-suit developments. But clearly the opportunity for build-to-suits has decreased with the number of you know big reduction in the number of operators capable both financially and technically of putting build-to-suits developments together. But yes there is some movement. But also movements of expansion of space as well as contraction.

Further answer: David Doyle: And then just to add to that. You know, that said, the introduction or the higher level of uptick that might be seen on the build-to-suit activities in the course of say the last probably eight weeks or so is actually on a net basis, a very positive thing because it reflects new demand coming into the market and it also reflects that people who are out there looking for new space and not able to find it in a standing building. And where to be frank they will be able to get a much better deal than going and both taking the time lag and the extra cost of building a new building. So the re-emergence of some build-to-suit activity on a net-net basis is absolutely a positive because it reflects the fact that that supply side is starting to tighten right up.

Ruud van Maanan: Thank you those were all my questions.

Operator: Your next question comes from Jean-Yves Devloo from ING, please ask your question.

Question 4 : Jean-Yves Devloo, ING:

Hello. Good morning. My first question is on the retention rates, 60%. Could you comment on the typical amount of lease incentives that are used for new leases for different lease periods?

Answer: Simon Nelson: We are typically seeing and again this is going to be a generalisation because it does vary quite significantly from market to market. But one

would typically expect to give one month of rent free per year on the lease, as a base case. I know that in certain build-to-suit situations there are larger incentives than that being offered. But that would be the base case and it might be more than that in a market where there is abundance over supply and there are some of those at the moment.

Further question: Jean-Yves Devloo, ING: Being, which ones?

Answer: Simon Nelson: In terms of micro markets I would say in Poland there are a couple of markets west of Warsaw and in the south of Poland. In the Netherlands around southern Netherlands there is currently a fair amount of over supply, that was a market that was overbuilt. In Lyon, what has always been a very strong market is currently in a situation of over supply and Madrid where there is a significant amount of standing vacancy along the corridor east of Madrid. Those are perhaps the top five areas of concentrated over supply.

Further question: Jean-Yves Devloo, ING: Then my following question. By what percentage do you estimate the market demands for new warehouses to grow in the next couple of years?

Answer: Simon Nelson: We estimate it to be essentially flat this year. And for future years as the return to growth in GDP and the development of global trade back to more recent levels, that will clearly generate a growth from 2011 onwards. By how much I have not given an estimate, but it is certainly positive. But essentially flat for this year in terms of demand.

Further question: Jean-Yves Devloo, ING: Perhaps if you look backwards, what would be the average rate of growth for the past let's say three years?

Answer: Simon Nelson: Well clearly if you look, we have had falls in demand of about 25% per annum over the last two years, but we were coming off numbers in 2007/2008 that were abnormally high. The level of demand on a European basis is currently just under the ten year average. So although it is a soft market compared to the heady volumes of 2007 in particular, there is still a good level of activity.

Jean-Yves Devloo: OK, that's fine thank you.

Operator: Your next question comes from Osmaan Malik from JP Morgan.

Question 5: Osmaan Malik, JP Morgan: Hi guys, most questions have been asked now, but I think you have been saying some interesting things on the investment market and ways to investment capital pick up an appetite. It seems that things may be opening up a bit. Does that tempt you to test the market at all to sell anything and would that be a way to maybe pay down the syndicate, part of the syndicated loan and reinstate the dividend?

Answer: Simon Nelson: It is a possibility that we are looking at. Clearly as you say markets have loosened up. We, as part of our ordinary ongoing portfolio management, will always have a certain amount of assets that we are preparing for recycling. Once the market comes back to the extent where we can choose the assets that we would wish to sell rather than simply having people asking us the assets they wish to cherry pick, then yes it certainly is a possibility.

Further question: Osmaan Malik, JP Morgan: Okay, so I take it that we are not quite at that level yet then. Do you have anything on the market or not?

Answer: Simon Nelson We are not formally marketing anything no.

Osmaan Malik: Okay, thank you.

Operator: And your next question comes from Boudewijn Schoon from Kempen, please ask your question.

Question 6: Boudewijn Schoon, Kempen:Hi good afternoon. Just one question. Do I understand it well that getting investment grades rating back has priority in any case over paying a dividend?

Answer: David Doyle I don't think it, I wouldn't phrase it in quite that way round. I think perhaps to articulate it a different way. If we were in a position to secure an investment grade credit, that might actually be a driver that would get us there quicker because it could facilitate a more rapid return to the unsecured debt markets which would allow us to reissue and retire the 2012 and thus release the

dividend blocker. So I think I would turn it round and say it could be a leading indicator to get us to that point.

Boudewijn Schoon: Okay, thank you.

Operator: There are currently no further questions from the phone line, please continue.

Jen van der Eem: We have one question from the webcast which is similar to a previous one, from Pieter van der Meijden from Petercam:

Since you just said you will not complete a second preferred equity increase and you have not been able to renegotiate the terms under the €900 million credit facility, would it not be a possibility that PEPF II sell assets to you in return for shares at NAV so that you reach the 200 million equity target or is it more likely that you renegotiate the terms on the €900 million facility so you can start paying dividend again?

Answer: Peter Cassells: I think the answer is more towards the end of that question which is more likely to be successful in renegotiating the terms that actually require new assets to change the overall balance on the balance sheet. As David said, the idea of the investment grade rating is part of a process to return us to the unsecured debt markets which will ultimately help that goal.

Jen van der Eem: There are no further questions on the webcast, are there any more questions on the call.

Operator: There are no further questions.

Peter Cassells: Okay. Thank you all for joining us today. We expect to meet some of you during the coming weeks and look forward to speaking with you all again when we release the Q2 numbers later this year. Thank you all.

End