



PROLOGIS

Moderator: Luis Gutierrez
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Operator: This is Conference: #43768486

Operator: Good morning, my name is Jonathan, and I will be your conference operator today. At this time, I would like to welcome everyone to the FIBRA Third Earnings conference call. All lines have been placed on mute to prevent any background noise.

After the speaker's remarks, there will be a question and answer session. If you would like to ask a question during this time, simply press star, then the number one on your telephone keypad. If you would like to withdraw your question, please press the pound key. Thank you and Ms. Annette Fernandez, you may begin your conference.

Annette Fernandez: Thank you, John, and good afternoon everyone. Thank you for joining us for our Third Quarter 2015 Earnings conference call. Today, we are going to hear from Mr. Gutierrez, our CEO, who will discuss our strategy and market conditions, and from Jorge Girault, our senior vice-president of finance who will review results and guidance. Also, joining us today is Hector Ibarzabal, our Country Manager.

Before we begin our prepared remarks, I would like to remind everyone that all the information presented in this conference call is proprietary, and all rights are reserved. The information has been prepared solely for information purposes and is not a solicitation of an offer to buy or sell any securities.

Forward-looking statements during this call are subject to a number of risks and uncertainties. Our actual results, performance, prospects or opportunities may be formed materially from those expressed in or implied by that forward-

looking statement. The forward-looking statements are current as of the date of this call. We take no obligation to publicly update or revise any forward-looking statements after the completion of this call where as a result of new information, future events, or otherwise except as required by law.

Additionally, during this call we may refer to certain non-accounting financial measures. As is our practice, we have prepared supplementary materials that we may refer to during this call as well. If you have not already done so, I will encourage you to visit our Web site, fibraprologis.com and download these materials.

With that, it is my pleasure to hand the call over to Luis.

Luis Gutierrez: Thank you, Annette. Good afternoon, everyone, and thanks for joining us today. Before I begin, I'd like to touch upon Hurricane Patricia and the expectation that it will touch down in Guadalajara this evening.

We have a very comprehensive disaster recovery plan in place. This plan is supported by the property management teams in our other markets who are standby at the moment. We have already connected without customers in this market as well as our team on the ground.

They have complemented the appropriate safety precautions, and they are as prepared as they can be. Our thoughts and prayers are with them during this time.

Now turning to the quarter, I'll start with a few highlights.

It was a busy, exciting quarter. We continued to deliver exceptional operating results including high occupancy that outperformed the market by 240 basis points and delivered a strong rent change on rollovers.

Our robust operating results are driving both earnings and cash flow growth, and in turn are increasing the value of FIBRA Prologis. This is reflected in our distribution growth of 42.8% as compared to the third quarter of last year.

Our results are a testament to several important factors that differentiate us from the competition:

Number one. Our high-quality portfolio, which is located in the six best industrial markets in Mexico; number two, the experience of our local team, which has been together for more than 25 years; and three, the global customer platform of our sponsor.

From an external growth perspective, we are confident we will reach our 2015 acquisition plan and we will use our strong liquidity to accomplish this. We saw evidence of this earlier this week with our acquisition of three buildings in Mexico City.

These properties are fully occupied by global customers with strong credit and whose businesses are dedicated to e-commerce operations. One of those buildings is leased to Amazon and it is their first fulfilment center in Mexico.

Most of the leases in these assets are triple net with NOI margins well above the average of the portfolio. These properties are a great fit with our existing parks and were developed to the highest standards by our sponsor Prologis.

Looking forward, FIBRA Prologis has the right of first refusal on a its sponsor's 3.1 million square foot pipeline and land with a potential build out of 10.8 million square feet. The build-out potential includes the newly announced project at Prologis Park Grande which is expected to be developed over the next several years. This park is one of the largest master planned industrial parks in Mexico City that will specialize in logistics.

Now let me switch to real time market conditions.

Logistics real estate continues to improve despite the soft economy; in fact, this is one of the best years in my 27-year career. The main drivers of demand for quality logistic spaces are: the growth of 3PL multinational companies that are outsourcing distribution services for retailers and manufacturers. We have seen this with the entrance of international brands such as Old Navy, H&M

and Under Armour; the expansion of e-commerce; and demand from growing sectors such as pharmaceuticals, automotive and electronics, among others.

It's also important to note that the overall vacancy of modern high-quality facilities in our six markets is a healthy 6.1, this is the lowest level of the current cycle.

Taking a deeper look to Mexico City, our largest and most active market, net absorption total 5.5 million square feet over the past four quarters, vacancies fell at 160 basis points in the third quarter to 5.5 percent. The pace of completion has slowed compared with earlier in the year; an indication that vacancies will remain low in the near-term, which provides a terrific backdrop for rent increases.

Let me sum up, we had an excellent third quarter. Our operating results are very strong with high occupancy levels and healthy increases in rent change on rollovers. The real estate fundamentals across our markets remain strong and demand continues to outpace supply. We are on track to meet our 2015 acquisition goals, which will drive FFO growth and allow for dividend growth in 2016.

We believe the gap between public and private valuations will close. FIBRA Prologis is one of the most compelling investment opportunities and at current pricing, offers one of the highest dividend yields in the sector.

With that, I will now turn the call over to Jorge who will walk us through our results and provide an update on guidance.

Jorge Girault: Thank you, Luis, and good afternoon to all.

We had an outstanding third quarter, which adds to nine months of strong operational results. This quarter represents the first full quarter that can be compared to the same period last year. As such, we are now presenting full comparative quarterly financial results including same store NOI on an IFRS basis.

I would also like to remind you that the US Dollar is FIBRA Prologis' functional currency which is how we present our financial information.

Let's turn to our performance in the quarter.

Despite further currency devaluation, we have delivered stable dollar results which are a reflection of having 85 percent of our revenues denominated in dollars, supported by our strong customer base.

NOI for the quarter was \$36.2 million dollars, a 6 percent increase as compared to the same period last year. Cash same store NOI reached \$33.3 million dollars, an increase of 9.8 percent as compared to the same period last year.

FFO was 4.10 cents of a dollar per certificate, a 5.4 percent increase over the comparable period last year.

In terms of valuations, this quarter we saw moderate cap rate compression in all of our markets, bringing the total compression over the past year to 60 basis points. This increase in valuation combined with our acquisitions excluding those announced earlier this week have increased our investment in properties by 10.9 percent to \$1.9 billion dollars as appraised by CBRE.

Moving to operations: Occupancy for the quarter was 96.3 percent, up 30 basis points sequentially and 100 basis points over the same period last year.

Net effective rent change for the third quarter was 14.7 percent, led by the original market with an increase of 20.5 percent, demonstrating the recovery of the border markets.

Capex, including property improvements and turnover costs, was \$3.1 million dollars representing 8.6 percent of NOI for this quarter, which is an effect of lower property improvements since most of these were completed in the first half of the year.

Customer retention was 92.6 percent for this quarter. For the last four quarters our retention rate has been over 90 percent which has exceeded our expectations.

In terms of lease renewals, 100 percent of our dollar leases were renewed in the same currency.

G&A, including asset management and third-party professional fees, totaled \$4.3 million this quarter, in line with our guidance.

Switching gears to our capital structure:

At quarter end, we had \$543 million of debt at par and no significant maturities until December 2016. Debt covenants are well within compliance with all our credit agreements and metrics imposed by the local regulation. We continue to maintain significant liquidity; after the recently announced acquisitions, we have approximately \$480 million dollars, including current unrestricted cash, our unsecured credit facility and its \$100 million dollar accordion feature.

We have been trying to further improve our liquidity, cost and flexibility of our capital structure, preparing FIBRA Prologis for our future growth opportunities. As such, we have been actively working on our 2016 debt maturities, and we will keep you informed of our progress.

As previously announced, we acquired three buildings for \$64.3 million dollars including closing costs. This acquisition was accretive to earnings as we utilized cash on hand and our unsecured line of credit increasing our leverage, bringing us closer to our target level.

Looking to our guidance for the balance of 2015, I will provide a few highlights, so please refer to page four of the supplemental financial information for complete detail.

We expect cash same store NOI growth to be at the low end of the range of 4.5 percent and 5.5 percent. We expect acquisitions to be at the low end of

the range of \$130 and \$170 million. For year-end occupancy we expect to be at the high end of the range of 95 and a quarter and 96 and a quarter percent.

As we announced last quarter, I would like to reinforce that we will be distributing equal installments in each remaining quarter of 2015, equivalent to 2.65 cents of a dollar per certificate resulting in 10 cents of a dollar for CBFi for the full year.

Going forward, we will provide our second quarterly distribution in connection with all our guidance assumptions.

To sum up, we had a terrific quarter. Our results continue to reflect the location and quality of our portfolio as well as solid operating conditions in our markets. We have substantial liquidity, excellent prospect for growth and a team that is the best in the business.

With that, I will turn it to the operator for Q&A.

Operator: And at this time, I would like to remind everyone, in order to ask a question, please press star then the number one on your telephone keypad. You may only ask one question at a time, and if you have another question, please press star one again to rejoin the queue. We'll pause for just a moment to compile the Q&A roster.

And your first question comes from Mauricio Hernandez with BBVA. Please go ahead.

Mauricio Hernandez: Yes, hi, Luis, Jorge, and Annette. Thanks for the call. My question is regarding the property improvements. We saw a strong decrease quarter on quarter. The question is would you expect to see this level of property improvement going forward. And just a quick second question is regarding the percentage of AFFO you will expect going forward? Thank you.

Hector Ibarzabal: Thank you, Mauricio for your question. This is Hector Ibarzabal. Good afternoon to everyone. Effectively we had a low figure for this quarter regarding property improvements. The way we have been recommending to look at this is in the fourth quarter trading because there is an important

cyclicality on this aspect. We do expect to end up property improvements within the range that we have been seeing which is between 14 and 16 percent. Property improvements, as a reminder, they are influenced by the blending between new and renewals, and we have a very important program to keep the properties in good shape, and that's what gives us the ability to have the retention rates that were experiencing.

Jorge Girault: Thank you, Mauricio, for the question. This is Jorge Girault. Regarding your question on the percentage of AFFO going forward in terms of distribution, on an annual basis, our percentage should be at 95 percent. As we announced in this call and the previous call, we are adjusting the distribution per certificate to 10 cents for the whole year. And that's equivalent to 95 percent of AFFO.

Operator: And your next question comes from Dan McGoey with Citigroup. Please go ahead.

Dan McGoey: Good morning. Thanks for the call. Can you touch on the -- you mentioned the acquisitions would be at the low end of the range of \$130 to \$170 million dollars, and you just announced roughly half of that. Can you talk a little bit about the timing of the remaining acquisitions and including the pipeline for 2016, whether it's more front-end loaded or back-end loaded?

And then the other question is, if we look out to 2016, it shows about 25 percent of rents expiring in 2016. Can you give an idea on the timing that you expect for the renewal or the negotiation of those rents?

Luis Gutierrez: Dan, thank you very much for your question and for your participation. So let me touch on the acquisitions first. Our guidance is between \$130 and \$170 million dollars. So we have been pursuing third party acquisitions, and we see that there are very few portfolios spreading out there. So our pipeline will be consistent from organic growth coming from the pipeline of our sponsor Prologis.

So \$130 million dollars is on the low end of the range, is what we will accomplish this year, and we're expecting to make further announcements during the month of November. In terms of acquisitions for 2016, of the pipeline, we expect the same flow as we saw in 2015. Those are not going to

be back-ended. We see some acquisitions hitting the first half of the year and maybe the majority on the second half of the year.

Hector Ibarzabal: Regarding expirations, expirations in 2016 are distributed among the markets in a very similar way our portfolio is located. However, the expirations in the global markets are more concentrated in the prime sub market locations, but they have by nature higher rents. Our in-place to market rent today is 7.9 percent, which tells you about the ability that we still have in 2016 to keep on showing important rent growth in our regions.

We feel comfortable with the retention that we have been showing; not only to keep our customers, but to keep the leases with the currency that they are stated as supposed to be.

Luis Gutierrez: Dan just a final touch. On next year, we will also be pursuing third-party acquisitions. Those are very difficult to predict, but the guidance I'm giving is just on the Prologis pipeline. There may be additional if we find something, but those are very difficult to predict.

Operator: And as a reminder, if you would like to ask a question, please press star one on your telephone keypad. Your next question comes from Francisco Suarez with Scotiabank. Please go ahead.

Francisco Suarez: Thank you for the call gentlemen. It was interesting to see the overall stability on the AFFO on the quarter-over-quarter basis and especially the question relates on how much of potential do you have to reduce your overall total turnover costs to NOI in accordance to your guidance of reaching, perhaps, 15 percent for the year. Do you think that you might actually -- is that a safe number to model coming forward, or do we have to for the potential to see that the number going a little bit down and that? Thank you.

Hector Ibarzabal: Francisco, this is Hector. Thank you very much for your question. Prologis is committed not only to develop high quality assets, but a very important feature is to preserve this quality within the building. So besides the service that we are focused all the time to keep this 90 percent of retention, we do not spare, and we have very focused discipline to keep the property in good shape. This Capex that we have been talking about is a measure of the money that

we're investing in these buildings to keep them in such a way. It's an international standard. It is something that could be observed within most of the rents, very small comparison in the US, so this 15 percent to NOI, I think that it's a good figure to keep on looking going forward.

Operator: And again, if you would like to ask a question, please press star one on your telephone keypad. And there are no further questions at this time. Mr. Gutierrez, I will turn the call over to you.

Luis Gutierrez: I think there is another question on queue. Would you please let it go through?

Operator: Yes, my apologies. We do have one more question from the line of Vanessa Quiroga with Credit Suisse. Please go ahead.

Vanessa Quiroga: Thank you very much, Luis. Hello Jorge, Annette, Montserrat. I'd like to make a question regarding the recent acquisition from company Prologis, and if you can provide more detail regarding the characteristics of that contract, the tenants in the buildings. In the specific – by calculating the price per square foot, it seems to be on the high end of the range of similar -- of acquisitions that could be deemed comparable, but then it would be interesting to know what differentiates this portfolio in specific. Thanks.

Luis Gutierrez: Thank you, Vanessa. So let me just say that these acquisitions were bought at market. The cap rate that was set is 7 percent, which is what the appraiser is saying that class A Mexico City for the highest end of properties is. And this 7 percent cap rate, the way we calculate it, we deduct a 5 percent vacancy factor, and we in the calculation, also include all the closing costs that are related to the acquisition. So that is the way the 7 percent comes out.

So in a sub market, you can have a different cap rate because, you know, cap rates depend on several aspects. Let me comment on the main aspects of this acquisition.

Number one is the location. So these acquisitions were done in Tres Rios and Izcalli. They are on the 57 highway Tres Rios and Izcalli is very close to that, so this is a very convenient logistic destination for, you know, most of our

clients that are looking to receive from there. So that is one of the main features because land is very scarce, you know, in this sub market.

In addition, there are design characteristics that make it different, so the construction quality that has to do with the height of the building, the security specification is another one. And this specification is also reflected, I guess, in the quality of the tenants.

So the tenants of these three buildings. One is Amazon, the first fulfillment center, opening in Mexico. APL which is sub contracting the e-commerce operation for Walmart. And Geodis which is a multinational company that is handling some fashion brands distribution from this location.

So in addition, value is driven by cap rate and rent. So if you see the rents on these properties, this is probably the highest rents of Mexico City for a class A space, and the rent, you know, when compared to other properties that may be higher. So this is how the appraiser looks at this.

One additional thing. Since this is a related party transaction, there is a mechanism that is set for that, so that the value, as I said, was set at market by a third-party appraisal which, in this case, was CBRE. This appraisal was then voted by the independent members of the committee and then the properties were bought.

So I would like to invite, you know, the investors and analysts, to come and visit the property so you can, I guess, see in a field trip the differences. So that's what I have to say related to this question.

Hector Ibarzabal: Just one addition to what Luis mentioned, all the features which are very important for the customers, really provide the ability that the mid and long-term, we keep the good rent spread that we have been showing, the retention and the occupancy that our properties are yielding. So this is a good investment in the medium and long-term.

Jorge Girault: Vanessa, this is Jorge. Thank you for being on the call. Just to be clear, in order to calculate the NOI margins for this acquisition, usually we use 86 percent

that we have the NOI margin of our numbers because we have most of the leases on a triple-net basis, it's usually what we said, so it's 92 percent margin.

Operator: And again, if you would like to ask a question, please press star one on your telephone keypad. Your next question comes from Alan Macias with Bank of America. Please go ahead.

Alan Macias: Hi gentlemen, and thank you for the call. Just a quick follow-up question, on the portfolio you just acquired, are rents in pesos or are they in dollars?
Thank you.

Hector Ibarzabal: The rents that we have are dollar denominated.

Operator: And your next question comes from Rodrigo Caballero with LCA. Please go ahead.

Rodrigo Caballero: Hi, good afternoon. My question was related to the further acquisitions. Should we be expecting the same cap rate that we saw from the recent acquisition?

Luis Gutierrez: Thank you for your question, Rodrigo. The additional acquisitions will be one building in Monterrey, one building in Toluca, so they are mainly in other markets, so the cap rate in other markets is higher than Mexico City. Mexico City commands the highest cap rates, so you would expect a difference in those cap rates.

Operator: And again, if you would like to ask a question, please press star one on your telephone keypad. And there are no further questions at this time. I will now turn the call over to Mr. Gutierrez.

Luis Gutierrez: Thank you very much, everyone, for your participation. We are very pleased with our results. We are very optimistic about our company and our strategy, and we look with optimism to the future. So please feel free to contact us should you have any further questions or need any further contact.

It has been great to be with you this morning.



Operator: And ladies and gentlemen, this concludes today's conference call. You may now disconnect.

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