

PROLOGIS

Moderator: Luis Gutierrez
October 28, 2014
11:00 a.m. ET

Operator: Good morning. My name is (Sherilee) and I will be your conference operator today. At this time, I would like to welcome everyone to the FIBRA Prologis Third Quarter Earnings conference call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. Please limit yourself to one question during this time and re-queue for any additional questions. To ask a question, please press then the number one on your telephone keypad. To withdraw your question, please press the pound key.

Thank you. Miss Annette Fernandez, Investor Relations, you may begin your conference.

Annette Fernandez: Thank you, (Sherilee), and good morning, everyone. Thank you for joining us for our third quarter 2014 earnings conference call. Today we will hear from Luis Gutierrez, our Chief Executive Officer, who will discuss our strategy and market conditions and from Jorge Girault, VP 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 informational purposes and is a solicitation of an offer to buy or sell any securities. Forward-looking statements in this conference call are subject to a number of risks and uncertainties. Our actual results, performance, prospects

or opportunities may differ materially from those expressed in or implied by the forward-looking statements.

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

Additionally, on this conference call, we might refer to certain non-accounting financial measures. As is our practice, we have prepared supplementary materials that we might reference during the call as well. If you haven't already done so, I would encourage you to visit our website at fibraprologis.com and download these materials. Our link to the materials can be found on the investor relations in the Event Presentations tab in our website fibraprologis.com.

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

Luis Gutierrez: Thanks, Annette and good morning. Welcome to our third quarter earnings call for FIBRA Prologis. Today, we will review our results, share our view on current market conditions and discuss our opportunities for growth.

Starting with our results, I'm very pleased with our performance in the third quarter, our first full quarter as a new company. Our operating results were strong and overall, the operating environment in Mexico is healthy and poised for continued growth.

We leased more than 3 million square feet. This is the highest volume in six quarters. This volume pushed occupancy to more than 95 percent, reaching our year-end goal earlier than expected. Rent change from rollovers continued its positive trend demonstrating accelerating rent growth in our product.

Our performance is a result of four unique advantages of FIBRA Prologis. First, our focused investment strategy. We only operate in the deepest and most active markets serving global trade and regional manufacturing. Second, the high quality of our portfolio, which is built to international standards.

Third, our expert local team that has worked together closely for many years. And fourth, our sponsor who brings the world-class customer franchise and a proprietary pipeline of class A facilities.

Let's turn now to a brief overview of market conditions that are driving demand for our business. Real GDP growth is expected to be 2.5 this year and 3-and-a-half in '15. (This is a meaningful acceleration over growth in '13. The Mexican economy is growing, stimulated by manufacturing exports to the U.S. One of the clear growth sectors is auto, which has reached record production levels.

Excess demand has improved market occupancy rates which ended the quarter at 91.5 percent in our six markets. Net absorption in these six markets total approximately 12.1 million square feet during the past four quarters. Market rents are rising in all of our markets with a recent acceleration along the border and steady increases in Mexico City, Guadalajara and Monterrey.

We see the logistics sector growth from 3PL customers who are gaining market share as well as for new entrants into ecommerce. In the manufacturing sector, we see increasing demand for built to suits and expansions in the border market and Monterrey. This increase in demand is mainly from the auto, electronics and consumer goods customers.

FIBRA Prologis will benefit significantly from Mexico national infrastructure plan that runs through 2018. The most notable part of this plan as it relates to our business is the construction of a new world-class international airport in Mexico City, our main market, which will modernize and expand transportation networks north of the city.

To sum up, we had excellent results and are entering the fourth quarter with strong momentum. Macroeconomic trends are solid in all of our markets. As we look forward, FIBRA Prologis is well-positioned to capitalize on embedded earnings potential as we increase occupancy and roll in place rents to market as well as from the external growth opportunities. We have a significant near-term pipeline from our sponsor and we are seeing some interesting opportunities to acquire from third parties.

So, with that, let me turn it over to Jorge who will walk us through the numbers.

Jorge Girault: Thank you, Luis. I would like to start by saying that this is the first full quarter for FIBRA Prologis so we do not have comparative financial results for any previous period. In an effort to have comparative operational information, we have included prior period metrics from our original portfolio before our ownership. As a reminder, our functional currency is U.S. dollars so my remarks will be related to that currency.

Starting with our third quarter results, FFO was approximately \$24 million or 4 cents per certificate which is in line with our expectations.

Turning to operations, quarter end occupancy for operating portfolio was 95.3 percent, a hundred basis points from last quarter and 270 basis points year-over-year. Our customer retention ratio was 97 percent.

Net effective rents on leases signed during the quarter increased 7.5 percent from prior in-place rents. I would like to highlight that our net effective rent change is the difference between expiring rent and new market rent signed, excluding CPI adjustments or revenues derived from tenant improvements.

Cash same-store NOI was mainly flat for the quarter when compared with the same period last year. This was driven by a higher than our average leasing volume and lease commencements this quarter which resulted in proportionately higher free rent. It is important to note that this was volume driven and it's not related to an increase in concessions. We will transition to reporting same-store NOI on an IFRS basis in the third quarter for 2015 which is the first quarter that we will have fully comparable periods.

Turnover costs for the quarter were \$1.37 per square foot. Turnover costs were lower in the quarter due a higher ratio of renewals which incur lower turnover costs than new leases. G&A which is comprised exclusively of asset management and third party fees was \$3.5 million for the quarter in line with expectations.

Now, switching gears to our capital structure, as the quarter ends, we have \$552 million of debt at par and no significant maturities until 2016. We are well within compliance with all our debt covenants stated by our financial institutions and with financial metrics stated by the CNBV. We have \$300 million of liquidity including our undrawn revolver facility; we have incremental liquidity in the form of receivables from the expected IVA reimbursements and unrestricted cash. In addition, we have \$100 million accordion feature on our revolving facility.

Now, turning to guidance, we're increasing our year-end portfolio occupancy range by 50 basis points at the midpoint to a range of 95.3 and 95.6 percent. We expect G&A for the period since inception to the year-end to range between 8.2 and \$8.5 million. We're increasing our FFO guidance for the period since inception to year-end in 2014 to range between 8 and 9 cents. As mentioned, our long-term target is to pay out 95 percent of A FFO) on an annual basis.

From a capital deployment and growth perspective, FIBRA Prologis is positioned with purchase rights on our pipelines that have grown development projects to 4.2 million square feet for approximately \$260 million currently owned by Prologis. Additionally, we see opportunities for third party acquisitions.

With respect to the \$260 million pipeline, \$110 million of assets that are located within our global markets are currently subject to closing conditions, including among others regulatory and antitrust approvals.

To sum up, we had an exceptional quarter from an operational perspective. Our clear strategy is being executed well by a strong, local and integrated team and our growth prospects are excellent. With that, I will turn it over to the operator for questions.

Operator: As a reminder, if you do have a question, please press star then the number one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster. Once again, if you do have a question, please press star then the

number one on your telephone keypad. There are currently no questions in queue.

At this time, we do have a question in queue from (David Fang) from First State Investment. Your line is open.

(David Fang): Hi, good morning, guys. I just wanted to ask a question about the acquisition pipelines there. Apparently, you had a very (little) acquisition (span) in the third quarter from a third party. Can you just comment on the prospect of third party acquisition pipeline and also what do you see from -- (acquiring from) Prologis in the next quarter or so? Thank you.

Luis Gutierrez: Thank you very much for your question. This is Luis Gutierrez speaking. So, let me cover first our (response to) pipeline. First of all, during the quarter, the pipeline of development projects increased from 3.2 million square feet to 4.2 million square feet, approximately \$260 million. Most of the properties in this pipeline are in our global markets. This pipeline -- there is \$110 million, about 1-and-a-half million square feet which are in the process of authorization from regulation and antitrust that we expect to complete in the coming months.

As to third party acquisitions, we are actively pursuing some opportunities as we have strong teams on the ground. We have been able to pick up some off-market transactions and we expect to see some activity in the next few months.

Operator: Once again, if you do have a question, please press star then the number one on your telephone keypad. There are no questions in queue at this time. I turn the call back over to Mr. Gutierrez for closing remarks.

Luis Gutierrez: Well, thank you very much for your participation. We appreciate very much your interest in FIBRA Prologis and we look forward to updating you in our progress. So, with that, we will end the call.

Operator: This concludes today's conference call. You may now disconnect.

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