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Moderator: Melissa Marsden
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Operator: Good morning. My name is Sarah, and I will be the conference facilitator today. I would like to welcome everyone to the ProLogis Q1 2010. Today's call is being recorded. All lines are currently in a listen only mode to prevent any background noise. After the speaker's presentation there will be a question and answer session. If you wish to ask a question during this session, simply press star one on your telephone keypad. At this time I would like to turn the conference over to Ms. Melissa Marsden, Managing Director of Investor Relations and Corporate Communications with ProLogis. Please go ahead, ma'am.

Melissa Marsden: Thank you, Sarah. Good morning everyone and welcome to our first quarter 2010 conference call. By now you should have all received an e-mail with a link to our supplemental and if not, this document is available on our website at Prologis.com under investor relations.

This morning we'll hear from Walt Rakowich, CEO, who will comment on the market environment and then Bill Sullivan, CFO, will cover results and guidance. Additionally, we are joined today by Ted Antenucci, President and Chief Investment Officer, and Chuck Sullivan, Head of Global Operations.

Before we begin prepared remarks, I would like to quickly state that this conference call will contain forward-looking statements under federal security laws. These statements are based on current expectations, estimates and projections about the market and the industry, in which ProLogis operates, as well as management's beliefs and assumptions. Forward looking statements are not guarantees of performance and actual operation results may be affected by a variety of factors. For a list of those factors, please refer to our forward looking statement notice in our SEC filing. I would also like to add that our first quarter results press release and supplemental do contain financial measures such as FFO and EBITDA that are non-GAAP measures.

In accordance with Reg-G, we have provided a reconciliation to those measures. And as we've done in the past, to give a broader range to investors and analysts an opportunity to ask their questions, we'll ask you to please limit your questions to one at a time. Walt, would you please begin?

Walt Rakowich: Sure. Thank you Melissa, and good morning everyone. This morning, I will try to keep my comments brief and talk about business fundamentals and progress toward our key focus areas with the objective of leaving more time for Q&A. Bill will have more on our financial results, balance sheet and guidance for the remainder of 2010.

Overall I would say that Q1 feels a bit like Q4 last year. We hear great things about the recovery, and we believe it will have a positive impact on our performance, but industrial tends to lag the overall economy and we're not seeing it just yet. Right now our business feels like the "Tale of Two Cities."

On the one hand, the operating environment is still soft, although it feels like it has hit bottom. Our operational results for the quarter bear this out. Rental rates were down by about the same amount as in Q4. The lease percentage in our total industrial operating portfolio was flat compared to Q4. This reflects a slightly more than expected drop in leasing within our investment management and core direct owned portfolios, offset by a better than expected 500 basis point increase in the lease percentage of our completed developments.

Now on the other hand, values have risen, buyers are plentiful and there's rising activity and optimism in the market. In addition, there is virtually no new supply, and our development business is picking up abroad very nicely. Many of our customers are talking expansion for the second half of this year. We'll see. It certainly feels like brighter days are ahead, and if history were to repeat itself, fundamentals should improve by the third or fourth quarter as inventory levels rise in accordance with a growing global economy.

Overall, our FFO per share for the quarter was about a penny below our expectations. As we've said in the past, annual FFO will be significantly back-end weighted. We believe we will end the year in line with our original FFO guidance, after adjusting for dilution from our bond offering. However, what is important is that we continue to stay focused and execute on three basic things, all of which we're making good progress on.

- First, converting our non-income-producing assets into income-producing assets,
- Second, creating value through accretive development, which helps us accomplish our first objective of monetizing land, and
- Third, continuing to strengthen our balance sheet. Bill will have more on the third objective, so let me cover progress on the first two.

The most impactful thing we can do right now is lease space in our existing portfolio. Nine months ago, leasing in our total industrial operating portfolio, which is basically everything not under development, was 87.7%. That number of course was significantly weighed down by our completed development. At the end of the first quarter, total leasing in that same portfolio was 89.2%. No doubt market conditions have been challenging, but we are pleased with the progress we've made.

In the future, we will reach a lease percentage in the low-to-mid 90% range. That will generate over $175 million in additional annual FFO, or $0.35 per share. That is real future cash flow. In addition, we are growing our development business and in turn reducing our land bank. Last year that seemed like a daunting task. This year it certainly seems more doable.

Opportunities, particular in international markets, are increasing. These markets are starved for new product and while overall conditions are still soft, much of the vacancies, especially in Europe, are in older obsolete buildings.

We set a goal to start $700 to $800 million of new development this year primarily from build-to-suits. Right now, that goal looks very achievable. In the first quarter, we signed two build-to-suits; one in the U.K. and one in Hungary. We also started a 1.5-million-square-foot development in Tokyo, which will not be complete until next year. Already we have letters of intent for more than a third of the building.

Total development starts for the first quarter were $252 million. As important, given where cap rates are today, we expect to generate over $60 million of NAV accretion from fourth and first quarter starts with the land put in the developments at our original book basis.

In addition, we signed four fee development transactions for customers totaling $81 million. Two of the buildings were in Germany, one was in France and one was in Sweden. In one case, we sold land as a part of the overall transaction. Importantly, that land was sold at a 3% profit to our original basis. For the quarter, we sold a total of $47 million of land.

So when you combine land sales with land moved into development, we were able to monetize $138 million of land in the first quarter. Now, that is progress. The rest of the year is shaping up as well. Since the end of the quarter, we signed two new build-to-suits totaling $125 million and have another seven build-to-suits in negotiations.

Given the environment we've been in, it can be easy to overlook the long-term value creation potential of our development franchise. We understand that. But for us, it is one of our core competencies. In combination with strong customer relationships, our development business has great upside potential right now, especially with improving market conditions. Our goal is to unlock that value over time, while monetizing our land bank and leasing our non-income-producing assets. When we succeed at this, earnings and NAV growth will follow. Now let me turn it over to Bill.

Bill Sullivan: Thanks, Walt. Similar to Walt, I'm going to try and keep my commentary relatively brief and just hit the key points. I'm going to cover three aspects of the company's financial position this morning;

- First, a summary of our Q1 results,

- Second, our guidance for the year with some brief insight into the things that we expect will impact the next three quarters, and
- Lastly, some comments on our balance sheet and fund debt initiatives.

We reported $0.01 per share in FFO for Q1 2010. Negatively impacting our reported results was approximately $53 million, or $0.12 per share, in charges associated with our bond and convert buy backs in Q1 as well as a loss on the settlement of a derivative in one of our funds. After adding back these charges, we effectively generated $0.13 per share in FFO for the quarter, which was about $0.01 below our internal expectations. Of the $0.13, $0.02 per share is gain related and $0.11 cents represents core FFO.

The core FFO was $0.01 below our internal expectation principally due to the strength of the dollar versus the euro and lower expected occupancies. There were also a variety of expenses incurred in Q1 that will be nonrecurring, including a one-time tax charge and increased rental expenses associated with the harsh winter.

Relative to full year FFO guidance, our original guidance for 2010 was a range of $0.74 to $0.78 per share. We have decided to expand the range of our guidance to $0.70 to $0.78 per share to take into account that the dilutive effects from the debt issuance in March. The revised guidance still excludes the charge of $0.12 in the first quarter related to the buy backs and other capital market activity. Relative to our core FFO, we are lowering our estimates to a range of $0.55 to $0.60 per share from our original guidance of $0.64 to $0.68 per share, representing a decrease of $0.085 per share at the midpoint of the core FFO ranges.

The principal contributing factors to the decrease are:

- Approximately $0.03 to $0.04 of dilution associated with the debt offerings.
- Approximately $0.025 associated with lower capitalized costs resulting from our expectation of a lag in the timing of development cost outlays mitigated somewhat by accretion from a delay in the timing of asset sales – the proceeds of which will ultimately be used to fund the development costs.

- We expect about $0.03 of dilution to our original forecast from the combination of a stronger than expected dollar, lower than expected occupancy experienced in Q1, higher rental expenses in Q1 and the one-time tax charge.
- Finally, we will pick up a little more than $0.01 in FFO from our increased investment in PEPR, net of increased borrowing costs.

Of the net decrease of $0.085 just outlined, we believe approximately $0.04 to $0.05 is of a more permanent nature, i.e., the debt offering dilution and potentially the FX, while the remainder is either one-time costs or merely a result of a lag of one or two quarters in timing.

Achievement of the targeted core FFO will be dependent upon seeing a recovery in occupancy in the second half of the year as well as implementation on our development activity. From a gain perspective, we expect to generate an additional $0.05 to $0.07 in increased FFO from certain assets that have been targeted for sale or contribution due to increasing values, as well as gains from other opportunities that we are working on.

As we have communicated since February, we expect the core FFO to be back-end loaded this year, which is driven principally by our expectation of recovering occupancies and an increase in capitalized costs associated with the ramp up of development activity later this year.

We have never guided specifically to quarterly results. However given the disconnect between the sell-side quarterly estimates and our internal estimates, let me give a little insight. Q2 will likely see a pickup in core FFO from continued leasing and occupancy within the completed development portfolio and reduced tax expense. However, we expect Q2 and Q3 to be our low points for capitalization of costs associated with our development activity, which will mitigate a portion of the increases. We expect Q3 and Q4 to show the beginning of the recovery in occupancy in the funds and direct-owned core portfolio, as well as continued occupancy pickup from the development portfolio with capitalized costs associated with our development activity increasing in Q4.

Additionally, as most of our asset sales are now targeted to close in late Q3 or Q4, core FFO in Q4 will likely be flat to Q3 and pick up again in 2011 upon completion and occupancy within our build-to-suit pipeline. Finally, we expect little or no gain on dispositions to be realized in Q2. With our remaining targeted gains realized roughly equally in Q3 and Q4.

I hope this bit of insight helps, however, I realize it's never enough. Let me turn to our balance sheet debt and fund related debt briefly.

Our balance sheet debt increased in Q1 by a little over $100 million, principally associated with our acquisition of incremental units in PEPR. As a result of our debt offering and buyback activity, we made great progress on smoothing out debt maturities with the focus on reducing 2012 and 2013. We believe these maturities are at acceptable risk levels at this point and therefore while we intend to be opportunistic if the situation presents itself in 2010, we will likely put further activity on these maturities on the back burner until 2011.

Finally we do intend to continue our de-levering efforts through a variety of activities. Turning to the fund debt at March 31st, we had $738 million in remaining 2010 maturities of which $330 million has been refinanced so far in April and the vast majority of the remainder will be refinanced or paid off by mid-summer, if not by June 30.

We see no issues associated with dealing with these maturities. Let me conclude by making it clear that in 2010 we are most heavily focused on growing the NAV of the company and near term FFO generation may suffer a bit as a result. However, we believe the moves we have made and others that we are focused on for the rest of the year will make ProLogis sustainably profitable and growth oriented in the future. Thank you. Let me turn it back over to Walt to wrap up.

Walt Rakowich: Thanks, Bill. Before I open it up for Q&A let me just leave you with one final thought. We understand what we have to do, and we continue to make progress in doing it.

It's dangerous to get too focused on where the market is today. We know we have to address today's market but are optimistic that it will improve. Our mission in the meantime is to stay focused on our near-term objectives. They are: converting non-income-producing assets into income-producing assets, creating NAV through accretive development, which helps accomplish the first as it relates to land, and continuing to strengthen our balance sheet.

As I said before, our successful execution of these three objectives will drive substantial value in the future. We look forward to giving you an update on our progress next quarter. Thank you. Operator, we're ready to open up the lines.

Operator: Our question and answer session will be conducted electronically. If you would like to ask a question of our speakers, please press the star key followed by the digit one on your touch-tone telephone.

Your first question comes from Ross Nussbaum of UBS, your line is now open.

Ross Nussbaum: Good morning everyone, I’m with Rob Salisbury here. Guys can you talk a little bit about the dividend with respect to some of the commentary you gave on the source of the earnings as we move forward. Bill, I thought I heard you say that from a guidance perspective there is an incremental positive of $0.05 to $0.07 a share now in the guidance from the drop in cap rates that's occurred over the last couple of months. I guess I'm just trying to think about that relative to what I think about as income generated off of the core assets versus development gains and how that relates to sustainability of the dividend given the FFO and AFFO that you're expected to generate?

Bill Sullivan: OK, Ross, let me see if I can try to simplify that. From my perspective, I think we've communicated constantly over the last 12 or 15 months we have a large portion of non-income producing assets on the balance sheet in the way of our land bank and the unleased portion in our development pipeline. We are working hard, and we've made fabulous progress associated with that. At the conclusion of those monetization and leasing efforts, our core FFO is going to well exceed what's necessary to fund the dividend. The gains associated with various transaction activities, from a basic REIT level, are intended to be distributed to shareholders.

And so you know, generating the AFFO through a combination of core and gains is just fine by us right now. So as we look out there is nothing on our radar that would adjust the dividend negatively given the activity that we have going. Over the next 18 months or so, we believe that the core FFO in and of itself will more than amply cover the dividend.

Operator: Your next question comes from Jamie Feldman of Bank of America Merrill Lynch. Your line is now opened.

Jamie Feldman: Thank you very much and good morning. I was hoping you guys could give a little bit more color on just conviction on how we will see a back-half recovery. Maybe talk a little bit more about the conversations you're having with tenants. Then in terms of lead time, if you're having discussions now, how long before you actually see leases and see cash flow flowing through to the bottom line?

Walt Rakowich: Let me – it might a combination of us Jamie taking that. I think we're reasonably positive based on discussions that we've had with customers. We do survey our customers on a quarterly basis and late last year they were telling us that they felt they would be expanding by the second half of the year.

Interestingly enough, when we talked to them again they're pretty much saying the same thing. So we feel pretty convinced about it. The other thing that we see is the fact that we are starting $250 million of development. Last year, we started $330 million of development. I mentioned that's it's almost like The Tale of Two Cities.

On one hand, in the core portfolio, it's basically flat to down slightly. On the other hand, you've got this lack of supply that's in the market and you have customers that are sort of snooping around and starting to sign built-to-suit type transactions. I think that’s clear just by looking at the development and the fact that we just signed another $125 million since the end of the quarter –

sort of over the last three weeks. I think it is a pretty good indication that there is activity.

If you talk to brokerage firms, one in particular who we talked with prior to the conference call, they'll tell you that their overall book of business is up somewhere in the neighborhood of 10 to 20%. Now the interesting thing is that's activity and not necessarily net absorption. But activity, 9 times out of 10, does lead to net absorption. So whoever you talk to out in the market, they are feeling a lot better but the truth of the matter is that we tend to lag six months to maybe nine months behind. First, companies create sales, and then they increase inventories, generally speaking. And so we'll see but we are feeling a lot better about what we are seeing out there. And I don’t know if Chuck or Ted, if you guys want to add to that.

Chuck Sullivan: Thanks, Walt. You know Jamie a year ago they were talking about potentially contracting in a variety of facilities. We're not having those conversations anymore. Additionally when we do these surveys, we ask them what capacity that they are at in their supply chain. A year ago, you would have heard that to be in the mid 80s. You're starting to hear that number in the high 80s to 90s, and they don’t ever want to go much above 93 to 94 % because it creates inefficiency.

So you're starting to see their activity level is being based upon what they anticipate, which are the sales that Walt talked about, and the global economy improving. Activity levels have risen over the last year.

Operator: Your next question comes from Steve Sakwa of ISI Group. Your line is now open.

Steve Sakwa: OK, thanks. I just kind of wanted to go back to the pace of leasing. It looks like in the – at least in the direct owned portfolio on page 1.5 – things kind of tailed off pretty dramatically here in the first quarter. Can you guys just help me think about the pace of activity you would need to see to really start moving the needle here on the occupancy front?

Chuck Sullivan: Well, I'll take the leasing in Q1 in the direct. We went back and looked at it historically, and Q1, for a variety of reasons most of them anecdotal, always seems to be a lower quarter. Actually, we're splitting out direct and core but, if you took investment management back a few quarters, you'd find a similar trend excepting this quarter.

You know you speak to customers and many of them have a retail component in their supply chain. They are not highly focused on leasing warehouse space in the fourth quarter and that spills over into Q1. You do see some trending up of re-stocking, both short- and long-term, for back-to-school and the holidays but that trending upward usually is a Q2 through Q4 occurrence.

Walt Rakowich: Steve, let me give you the surprise on one hand and then I think the upside on the other hand. I'd say that while we were probably – we weren't surprised at the drop in investment management because we were starting from a 93.5% number. Given market conditions, we did expect to come down, and I think we guided there – OK? What surprised us a little bit was the 30 bps drop in the core. Candidly, what surprised us to the upside was that the development went from 62% to 67%. I would have said probably more like 3% to 4% but we'll take 5%.

You're not going to see the cash flow coming through from that development leasing until another couple of quarters. Because you do a lease, but they don't start paying you rent for another three to six months after you do the TIs and the like.

So, the upside is, if you look at that direct-owned portfolio on page 1 5 – it's now at 83.7% but it was at 78.8% nine months ago. That is progress. Obviously that's driven by the development. Overall the core has stayed about the same. So we think we've bottomed out from an occupancy perspective, generally speaking – a plus or minus – we could see it go up or down 30 bps or so in any quarter, 40 bps. That is what we saw that in the first quarter, and it disappointed us. That said, it's not completely out of line. We believe we're bumping along the bottom. We think we are making progress overall in the development and hopefully brighter days are ahead. We are hearing good things in the market, but we'll talk about it after it happens as opposed to before it happens.

Operator: Your next question comes from Sloan Bohlen of Goldman Sachs, your line is now open.

Sloan Bohlen: Good morning, thank you. Walt, just a question – we heard a quote yesterday on a potential banner year for private capital raising. Can you comment on what you guys are seeing out there and whether that changes your perspective on your guidance for asset dispositions or even potential new fund vehicles?

Walt Rakowich: Yes, that's a great question Sloan. There's no question that there is a lot of private capital out there today and candidly it sort of surprises me. I wouldn't have said six months ago that it would be as active as it is. We've had some discussions with some partners of ours that we've done business with globally. I would say there's no shortage of capital today, which is the good news.

We started the year, and it's still in our plan, thinking that we would be disposing of certain assets in the US outright and then potentially putting together a fund and/or joint venture towards the end of this year. That is still in our plan, and we continue to have very, very preliminary discussions with some of our partners about it.

I would tell you that I have zero concerns at this point in time that we could get that done – absolutely zero – given what we see out in the market. It's really more of a question of our timing because our timing really needs to be line up somewhat with our developments. So we've signed $250 million of starts this quarter. We think we'll sign $700 to $800 million this year but you sign it and you don't start the development right away. You actually don't start spending money substantially until five or six months after the leases are signed. And so, we are trying to think about how we coincide those sales, or joint ventures, with our actual developments in progress. That's why we sort of pushed it back towards the end of this year in our mind. But there's absolutely no shortage of capital.

The other thing I would say is that I believe this time around that capital sources will gravitate more and more to operators that have co-investment. When I say operators, I'm talking about best-in-class operators. There isn't any question in my mind, and I don't think in anybody's on this phone, that we are a best-in-class operator in the industrial business. We think that we've got a very attractive story relative to the capital, and when it comes time to raise it, we don't think there'll be an issue at all.

Operator: Your next question comes from Ki Bin Kim of Macquarie; your line is now open.

Ki Bin Kim: Thanks, just two quick questions. First, on page 1.5, did you guys change the way you report occupancy because it looks like the labels and the numbers are slightly different from last quarter. Second, if you can give an update on the marketing efforts on the Eton Vance portfolio and, also specifically, it looks like you guys split up the portfolio – from funds VI to X and now VI to VIII and IX to X for reporting purposes. What the rationale was behind that?

Bill Sullivan: OK, let me take the first part of that Ki Bin. The organization on page 1.5 changed slightly. What it's focused on now is the fact we have a core direct owned portfolio, and we have a core completed development portfolio. As we've said for the better part of last 6 to 9 months that completed development portfolio is really going to become part of our core portfolio. And that becomes more so every day as we continue the lease up and complete those properties. So this is sort of an evolving effort to have you focus on what is the leasing in the overall core, wholly owned portfolio. Again, that will improve as we lease up the development side of that. But at a point relatively soon, they merge – they become sort of one portfolio, and we'll track that. So we wanted to just sort of lay that out and make sure that people are focused on that but also, for the time being, split it out so that you can continue to track the progress.

Walt Rakowich: OK, do you want to hit Eaton Vance?

Ted Antenucci: Yes, Ki Bin. This is Ted. We marketed at Eaton Vance's request two of the funds. We got offers in and ultimately us and Eaton Vance were not satisfied with the offers. The portfolios were not highly occupied, and they weren't attractive in this particular environment.

People are definitely paying top dollar for "Class A" assets that are 100% leased. This portfolio, at this point in time, didn't meet that criteria so we chose to pull those off the market. There are three other funds, and I believe Eaton Vance is interested in marketing those as well. So there will probably be more to follow on that.

Chuck Sullivan: And Ki Bin, in answer to your question, you will recall in Q4 we wrote off our investments in two of those funds so we've removed them from our numbers. If you were to put them back into the investment management portfolio, the occupancy would have declined by 57 bps. The total operating portfolio would have declined by 28 bps.

Operator: Your next question comes from Michael Bilerman of Citi, your line is now open.

Michael Bilerman: Bill maybe you can give a little bit more granularity on the ramp in the core FFO. I know you tried to give some of the details but if you look at the $0.11 in core without the development gains this quarter and the guidance of $0.55 to $0.60 you get to quarterly run rate for the last three quarters of $0.15 to $0.16 cents.

That's almost $75 to $100 million of annualized FFO and I'm just trying to get a sense of what are the big things – I can't imagine that its all capitalized G&A and capitalized interest that is driving that. So maybe you could walk us through some of the big components of going from $0.11, and it sounds like second quarter is going to be more flattish, to up almost $0.16, $0.17, $0.18 by the end of the year just given your share count, that is a lot of dollars in FFO. And, what has changed relative to mid-March when you had your bond offering where you said you were comfortable with your core FFO guidance and now you've decreased it pretty meaningfully down from $0.60 down to $0.55 to $0.60?

Bill Sullivan: Michael let me try to address it in two parts. First of all, let me touch on the second part relative to the core FFO guidance. The bond offerings had a dilutive effect and that's the biggest single piece of the decline. That's associated with the fact that – at the end of the day – we've reduced our line of credit, which is our cheapest form of borrowing as a result of those activities.

I think we've done a great job from a risk management standpoint of pushing out maturities and basically aligning our line of credit better with what is in the active development portfolio. And others have gone longer in that regard and there's a risk element associated with that.

A couple of things that sort of popped out in March, well past the offerings, were the winter expenses that flowed through both the fund portfolios and our core portfolio, which sort of gave us a little bit of a surprise there. It's a one-time charge from our perspective and there's a chance – we're digging into it – that some or all of that may be more recoverable than we've planned on right now, so that's a good thing. We also took a tax charge for about $5 million that is a onetime item. So when you start getting into that you've got about $0.06 right there. So there's a variety of things that impacted our perspective relative to the overall year's guidance.

The other side of it is that we believe our development activity – the $700 to $800 million that we've guided to – will definitely come to fruition. We're well along in that regard, however, the occurrence of those development costs will occur substantially later. And the majority of those, other than the land, will be pushed into Q4 and into 2011, which because of that does decrease the amount of capitalized costs associated with those. We've mitigated some of that by planning on pushing some of the assets sales off.

So those are the key drivers of what's impacting guidance relative to the ramp up of FFO. I believe in the 2nd quarter and certainly into the 3rd and 4th quarters, we're going to finally start seeing the full effect of what we've leased so far, versus what's occupied, in the development portfolio. That's a painful lag for all of you and us, but we're going to start generating the FFO out of that. We're still eating the costs associated with the unoccupied portion of that development portfolio, which is a drag on earnings. If we're successful, as we hope to be in continuing to lease it up, we have sort of a super charged FFO associated with that because we get the reimbursement of the expenses we're eating today as well as the base rent associated with the new lease up.

So we think that will ramp up pretty significantly through the end of the year. Then on the other side, both Walt and I touched on – we need to lease space. We are planning on a recovery in the second half of the year relative to occupancies and that will generate FFO quicker than the development portfolio, where you always have sort of that three to six month lag time for TEIs et cetera. So, to the extent that we can get the renewals and increase occupancy in that portfolio, I think you'll see that ramp up. Again, from a quarterly perspective, you're not going to see all of it in Q2 by any means because we will get hit for some of these same capitalized costs that we had in Q1 but by Q3 and Q4, you should start to see that ramp pretty significantly.

Operator: Your next question comes from the Brendan Maiorana, Wells Fargo; your line is now open.

Brendan Maiorana: Morning. I just wanted to revisit the land monetization that you guys had in the quarter, which was good. It appeared that most of the land as it relates to development starts was from Japan and the land, as a percentage of the overall development cost, was pretty high at around 35%. I was wondering if you could just give us an outlook on how you think you'll be able to monetize land in North American and European over the next year or two or three and what a reasonable percentage of total development costs your land is likely to be?

Ted Antenucci: Hi Brendan, this is Ted. I'll do the best I can at addressing that. It always gets to be a challenge to try and talk about percentages of land when you're looking at it globally because in every part of the world land is a different component. It costs more in many parts of the world than in others and therefore is a much higher percentage in some areas and lower in other areas.

Japan happens to be a market where land values are very, very high. You know the UK would fall into that category too. Some markets within the US would fall into that category as well. So I think we use on average of approximately 20% to 25 % for non-Japan transactions. I think we feel very good about the activity level that we have both on build-to-suit to in land sales.

I mean it's encouraging. We're very focused on getting our land bank down. The Japan deal is a great opportunity for us, so are the other development deals that we've signed. I think we feel like we're definitely on the right track to meeting our goals for this year and beyond.

Walt Rakowich: And you know Brendan, we – I believe it's on our website – we did a presentation a month or two ago where we laid out the fact that our goal is not to take our land to zero – OK? Our goal is to take our land to somewhere in the neighborhood of let's say $600 million to a $1 billion. We believe that on a run-rate basis, we can develop of somewhere in the neighborhood of $1.2 to $1.5 billion per year. Now we're not going to hit that this year because it's a transition year, but I think, when we finally get to a recovered economy it's there. So if you think about land at 25% to 30% of overall value and you need to carry at least two years to 2-1/2 years of land, you get to those kinds of numbers. So our view is we want to take our $2.5 billion today down to – I'm just going to go roughly the midpoint of that would be $800 million.

And we think that that's about a 2-1/2 to three year process to do that. In other words, we're going to be working off excess land over the next two to three years – working off more land than we buy. We won't be buying zero because in certain markets you may be at no land and other markets, you might have some excess land but you're working off more land than you're buying.

And ultimately, you're working down to that sort of $800 million to $1 billion – whatever that number is – and in getting to that point and time you got land where you want it. That should create additional upside in our earnings because whether or not you sell the land, the proceeds of which you would use to pay down debt or do something with the capital that would generate a return, or you put it into production at some return on invested capital, either way you're getting a return on it and therefore monetizing it.

And so that's our real goal and objective long term. And one other point, we guided this year to $350 to $450 million, obviously we monetized $138 in the first quarter. We feel very, very good about hitting the $350 to $400 at this point.

Operator: Your next question comes from Michael Mueller, JP Morgan. Your line is now open.

Michael Mueller: Yes, hi. Bill I just want to go back to the comments about the run rate and the ramp up. I think you said there's about $0.06 of onetime items, if you factor in the $5 million tax charge plus the winter expenses. That implies the winter expenses on a onetime basis were $20 to $25 million or something like that, is that correct?

And secondly you keep mentioning the capitalized cost and the capitalized overhead, if we're starting with the $42 million G&A expense in the first quarter, how significant of sequential changes are we going to see to G&A expense that will help you go from the $0.11 in Q2 up to $0.17 in Q3 or so?

Bill Sullivan: I don't know if this is an open line, because Michael I'm not sure I follow the beginning of your numbers there, because the cost that we were talking about relative to the winter costs are nowhere $20 million.

In terms of Q1 big picture items there's about $5 million of taxes that are one time. There's probably, versus a historic run rate, an increase in interest costs both in the funds and on the balance sheet as a result of the activities that we've undertaken. Interestingly enough, I think as Michael Bilerman may have said a few minutes ago, these costs are more meaningful these days. But as an example we had payroll taxes in the first quarter, where you pay the lion's share of FICA in the first quarter and that's not a run rate going forward.

So there's a whole host of things that factored into a first quarter lower FFO and that, for us, was exaggerated a little bit by some of the onetime costs and it was offset by some benefits that we saw in the first quarter as well.

But we feel pretty good about the ramp up through the rest of the year and again you're not going to see a big piece of that in the 2nd quarter because in fact you know we have to put things in perspective. I think we have 163 buildings in our completed development portfolio. We typically capitalize costs associated with those until they reach what we call stabilization, which is either they're 93% leased or they have been completed for more than 12 months. In the first quarter, we had 17 buildings as a subset of that in which we were still capitalizing various costs. Fourteen of those 17 buildings roll into the stabilized category in Q2. So we will see a decrease in Q2 and Q3 of capitalized costs associated with that roll off of that and you won't pick it up again until Q4 when we start really incurring the lion's share of the costs associated with the incremental build-to-suit development, et cetera, that we've started.

I think that answers the question, next question.

Operator: Your next question comes from Steven Frankel of Green Street Advisors. Your line is now open.

Steven Frankel: Thank you and good morning. I have a couple of different questions. First of all we've seen some of your peers go out and raise equity in the public markets recently to take advantage of the recent rally, get some fire power and/or de-lever. Can you guys update us on the ATM? I know you guys have one of those you announced recently and your thoughts on an equity raise as well?

Secondly in Europe, conditions there weakened pretty materially during the quarter. We saw occupancy fall more than 100 bps for PEPR and almost 200 bps for PEPF II, how does that enter into your guy's calculus on starting build-to-suits? And why start build-to-suits if you have so much supply in your current high-quality portfolio in Europe?

Bill Sullivan: Do you want me to take the first piece of that?

Walt Rakowich: Let me, well yes, well I'll take this – I'm happy to take the second piece, so. First of all let me just say this, Steve, good question. I'll take the second piece of it and then I'll let Bill take the first.

You start build-to-suits because companies want it, not because you want them to. I mean, what's happening is that companies are looking for a certain size in a certain location, 9 times out of 10 on one or two pieces of land that make sense to them. You might have an existing building that's out there but the fact is that it may not fit them if they need 100,000 square feet and you've got 80,000 vacant – that particular building just may not fit them. Or maybe they want 100,000 with an additional 30 of expansion and so what you're finding is that there are less and less of those choices and you don't have developers building those choices on a speculative basis. So while the market doesn't appear to be growing in terms of additional occupancy, there are companies that are in need of space that just isn't out there. And so we've got really one of two choices, you can either ignore it or, in our case we've got land that needs to be monetized over time, you can hop on it and do it.

And there aren't that many companies out there that have the capital today to build these buildings, so we think it's an opportunity. I think you'll see as you look at our quarterly numbers throughout the year, I think you're going to see that we will do a substantial amount of that build-to-suit business, which is indicative of the fact that the market is there. There are just people that need it.

Why do it? In addition to that, frankly, the construction costs today are somewhere in the neighborhood of 20% down from where they were two years ago. So you have all these people that are floating around in the market saying well boy we're buying these assets at a 20 % or 30 % discount to replacement costs. And they're fooling themselves to a certain degree because replacement costs have changed. Now, we may be back to where it was in 2007 in a couple years, but the fact is that replacement costs are much lower today.

I would much rather build a new building, pre-leased on a long term basis, with a great customer and monetized land at 20% below where I could build a building, than be out there knocking our heads against everybody else in the market and 20 other buyers that are looking to buy something that creates no value on the long term basis.

That's why we're developing today, and I think ultimately you'll find that the demand is there to meet it. Ted, you wanted to add to this?

Ted Antenucci: I just want to caution you. I mean there's been a drop in occupancy in Europe but going from 96.27% to 94.74% is – I mean 94.74% is a phenomenal occupancy level under any circumstance, this is one of the toughest markets any of us have ever seen. That's a fully occupied market at 94.74%. That's not to say that might drop a little bit more but the overall occupancy levels in our portfolios in Europe are fantastic at this point, and we have a team out there that's doing a great job keeping these buildings leased.

Bill, ATMs.

Bill Sullivan: Yes, just relative to the ATM. You know the ATM program is something we've had in place for many, many, many years and we've used it intermittently. And so as you get near the end – we used it in the Fall and just a tad bit earlier this year to the tune of about $28 million – and as you get near the end, we reload that program.

We thought an opportune time to do that was following the convert offering and entering into the blackout period for the earnings – when we were in a period where we technically couldn't sell anything for about a 60-day period – just to take the heat off the market thinking we're going to go out and sell a bunch of stock.

The practical reality is that if we choose to raise equity of any size we'll do it in an open market transaction. But the ATM offers us the opportunity that, if circumstance arises where you can take advantage of something and use $50 million or $75 million here or there, that program is available to us. And I believe that you know that we would use it to do so. The main message there is if we were going to do an offering or raise equity of any size we'd do it through the normal process of open market.

Walt Rakowich: And Steve I want to make one other point back to the development, which I didn't make before but I'm glad you raised the question. I made the comment in my prepared comments that we think that between the 3rd quarter and the 4th quarter we've created somewhere in the neighborhood of $60 million of NAV with our land in at book basis. That is on basically five deals, if you look at our starts in Q4 and Q1. And I think the interesting thing is that we believe today that were we to sell these starts, we would create somewhere in the neighborhood of I said $60 million – we'd be roughly at 20% to 21% margin on our cost with our land in at book basis.

And that is really indicative of what's happened to cap rates in the last year. So again I'd rather build it at much higher yields than be knocking our heads out there to buy it on the buy side. I think that's the way to create NAV.

Operator: Your next question comes from David Fick of Stifel Nicolaus. Your line is now open.

Josh Barber: Good morning. This is Josh Barber here with Dave. In light of some of your comments about Europe, I was just wondering why PEPF II had taken such a large write up? It was written up by almost 50 % in the quarter. Was that really just cap rate compression so much in the last three months?

Walt Rakowich: I think in PEPF II and the NAV per share is the exact same number, off buy a couple pennies …

Bill Sullivan: It is off by Euros.

Walt Rakowich: Yes, and it may be the Euros – I don't know if you said up or down but if it moved down it would be because of the euro exchange rate going down between Q4 and Q1, but the actual NAV per share between the 4th and 1st quarter I think is really close. So I'm not sure I understand. Why don't we take that question if we could offline and we'll be happy to get back to you on it?

Operator: Your next question comes from George Auerbach of ISI. Your line is now open.

George Auerbach: Great, thank you. Can you provide some color on the economics of the dispositions in developments in Q1 and also with regard to future dispositions, are you still guiding to roughly $1.4 billion in sales this year and what kind of pricing should we expect?

Male: Yes, George I can. You know it's interested there was of $172 million of dispositions in the first quarter. You have got to back out $47 million of that, which was in land, which we sort of spoken to. Of the rest of it, 95 % of it was in two buildings, OK? One was Narashino II to JLF in Tokyo and that was $88 million that was at a 5.9% cap rate. And the other one was a building that is in New Jersey, Port Reading, that we did a build-to-suit on that we had an agreement with our North American Fund, which we cut last year, to contribute it when it was done at an 8.25% yield. I would say that 8.25% on new buildings today would probably be somewhere in the 7.25 to 7.5% range, worse case. And so there's value obviously that the funds have gotten because we had cut the deal last year – the cap rate is at 8.25 but the 5.9, I think, is very characteristic of the Tokyo market today and when you add land to that you come up to 95 % of the $172 million.

Bill Sullivan: And let me just – because we pulled out some of the data, in response to the last question. You know the euro at March 31st for asset-value purposes was at 1.34 and it was 1.44 at year end. And so that difference accounts for 100% of the decline in NAV in PEPF II.

Walt Rakowich: And George on one of the questions – I'm sorry I missed your second part of your question. We are still guiding, we're not changing at this point our overall disposition guidance of the year.

Operator: Your next question comes from Shane Buckner of Wells Capital Management. Your line is now open.

Shane Buckner: Yes you mentioned earlier NAV accretion based on current cap rates, and I was wondering if you could talk about your internal view of where cap rates may go with a recovery. Are you making decisions about your portfolio based on an improvement of cap rates or do you expect a recovery to lead to increase in interest rates and cap rates stay flat? Just trying to get idea on how you think about it as you're making decisions on your portfolio and development activity.

Walt Rakowich: Shane, you know it's hard to say obviously but I don't know if I would be a proponent to saying that cap rates are coming down from where they are today. I think cap rates are where they are and you know obviously they've come down substantially in the last twelve months.

And so I think it would be crazy, even though I think there will be more capital in the market, I'm not sure I would believe that cap rates are coming down substantially. The flip side to that is because of the amount of the capital in the market I'm not sure that their going up either much in the next year.

And so how are we planning our portfolio around that? Well, one of the things that we talked about is that we were going to sell some assets throughout the year, predominantly in the US, and trade those dollars into development assets where we think we can create NAV. And I still believe today that that is the right thing to do because there isn't as much competition to build these buildings. We have a land bank that we need to monetize, and we've got the people in the place and the customer relationships. So we're best positioned to do that, so why wouldn't you gravitate to your core competency and in doing so sell assets where there's a feeding frenzy.

And so we continue to have that in the back of our mind candidly we are less anxious to do it immediately because the developments will ramp up more towards the end of the year and selling assets substantially in advance of the cash flow needed for those developments is significantly diluted. So we're going to try to time that a little bit better, but it really hasn't changed our overall view of how we go about our business right now.

Ted Antenucci: With regards to the business model that we currently have, it doesn't have – I mean we certainly still have NAV risk relative to cap rates but our business model's not built around cap rates anymore. I mean we're not building buildings to sell them. Cap rates are going to go up and down. Rents are going to go up and down. We are going to develop properties at a return that's higher than our weighted average cost of funds and play for cash flow. And we think that opportunity's out there especially within developments on land that we own.

Male: Operator, we have time for one more question.

Operator: Your last question comes from the Ross Nussbaum. Your line is now open.

Ross Nussbaum: Hi guys, just a follow up on my first question because I heard a couple different messages I wanted to clarify. Bill, I thought I heard you say at the beginning that you’re comfortable at least for the time being having part of the dividend covered through development sale gains until you start generating more operating income off of the development assets. Yet at the same time I’m hearing that the business model isn’t predicated upon cap rate changes. And I guess those two statements really standout to me in the sense that wouldn’t we all feel more comfortable if the dividend were being covered simply by operating cash flows going forward and development gains weren’t part of that at all?

Bill Sullivan: Yes, I think we’d all feel – I don’t think there’s anybody on this phone that wouldn’t feel more comfortable if the dividends were currently being covered out of pure operating cash flow. The fact of the matter is that until we monetize the land and lease up the vacant space, we’re going to take advantage of the gains that we see out there and use that to maintain our dividend and to distribute the funds to shareholders as REITs are supposed to do.

And so you’re 100 % right Ross, and I hesitate to chuckle on it but it’s – I know the question is probably deeper – but it’s an obvious answer. Yes, we would all prefer that it come straight out of operating cash flow and core cash flow.

I don't know whether …

Walt Rakowich: No, Ross, the only answer to that is if you’ve got $175 million of additional FFO in simply leasing up your development pipeline and moving up your occupancies a little bit, and that’s not with regard to monetizing land and the upside associated with that, I don’t think that you’re really that far off at this point in time. We got no intention at this point in time of reducing the dividend.

Operator I think we are done at this point.

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