

PROLOGIS
Form 10-K
March 16, 2005

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**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-K

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2004.
OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File Number 1-12846**

PROLOGIS

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction
of incorporation or organization)

74-2604728
(I.R.S. employer
identification no.)

**14100 East 35th Place
Aurora, Colorado 80011**
(Address of principal executive offices and zip code)
(303) 375-9292

(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of each exchange on which registered
Common Shares of Beneficial Interest, par value \$0.01 per share	New York Stock Exchange
Series F Cumulative Redeemable Preferred Shares of Beneficial Interest, par value \$0.01 per share	New York Stock Exchange
Series G Cumulative Redeemable Preferred Shares of Beneficial Interest par value \$0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **NONE**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No

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Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes No

Based on the closing price of the registrant's shares on June 30, 2004, the aggregate market value of the voting common equity held by non-affiliates of the registrant was \$5,957,143,121.

At March 11, 2005, there were outstanding approximately 186,306,321 common shares of beneficial interest of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Portion of the registrant's definitive proxy statement for the 2005 annual meeting of its shareholders are incorporated by reference in Part III of this report.

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ProLogis (collectively with its consolidated subsidiaries and partnerships, ProLogis) is a real estate investment trust (REIT) that operates a global network of industrial distribution properties. ProLogis' business strategy is designed to achieve long-term sustainable growth in cash flow and sustain its return on equity at a high level for its shareholders. ProLogis manages its business by utilizing the ProLogis Operating System®, an organizational structure and service delivery system that ProLogis built around its customers. When combined with ProLogis' international network of distribution properties, the ProLogis Operating System enables ProLogis to meet its customers' distribution space needs on a global basis. ProLogis believes that, by integrating international scope and expertise with a strong local presence in its markets, it has become an attractive choice for its targeted customer base, the largest global users of distribution space.

ProLogis is organized under Maryland law and has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the Code). ProLogis' world headquarters are located in Aurora, Colorado. ProLogis' European headquarters are located in the Grand Duchy of Luxembourg while its European customer service headquarters are located in Amsterdam, The Netherlands. ProLogis has offices in Asia in Tokyo, Japan and Shanghai, China. ProLogis common shares of beneficial interest, par value \$0.01 per share (Common Shares) were first listed on the New York Stock Exchange (NYSE) in March 1994.

This report on Form 10-K includes certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to changes in global economic, business, competitive, market and regulatory factors. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Factors.

A copy of this Annual Report on Form 10-K, as well as ProLogis' Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to such reports are available, free of charge, on the Internet in the Investor Relations section of ProLogis' website (www.prologis.com). All required reports are made available on the website as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission (the SEC). Any references to ProLogis' website address does not constitute incorporation by reference of the information contained in the website and such information should not be considered to be part of this document.

Business Strategy and Global Presence

ProLogis' business strategy has evolved over time in response to changes in the environment in which it operates. Throughout this evolution, ProLogis' focus has continued to be on its customers' needs. ProLogis was formed in 1991 as an industrial distribution operating company in the United States with a primary objective of differentiating itself from its competition. To do this, ProLogis needed to be able to meet a corporate customer's distribution space requirements on a national, regional and local basis while providing customers with consistent levels of service throughout the country. As such, ProLogis' initial business strategy involved the acquisition and development of industrial distribution properties across the United States and the building of a management team that would operate throughout the United States. These operating properties represented one operating segment—the property operations segment—as ProLogis' intent was, and continues to be, to hold certain investments on a long-term basis while generating income from leasing the properties to customers.

As ProLogis' customers' needs expanded to markets outside the United States, so did ProLogis' portfolio and its management team. ProLogis expanded its operations to Mexico in 1996 and to Europe in 1997, and now has operations in 11 European countries. In 2001, ProLogis again expanded its operations, this time to Asia with the initiation of operations in Japan. ProLogis opened a representative office in China in 2003 and,

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in 2004, acquired its first real estate assets in China. Further expansion in 2004 included ProLogis' entry into Singapore, with the acquisition of an operating property, and Canada, with the acquisition of land for future development.

In 1995, ProLogis expanded its business to include the corporate distribution facilities services (CDFS business) operating segment. The CDFS business segment began utilizing ProLogis' existing development capabilities, which had been primarily focused on the development of properties for direct, long-term investment, to develop properties for sale to third parties. As a REIT, ProLogis must distribute rather than reinvest substantial amounts of its internally generated capital. Accordingly, the CDFS business segment's sales to third parties provided ProLogis with funds that it could use as an alternative to public capital (debt and equity markets).

The ability to recycle funds in the CDFS business segment became a more integral part of ProLogis' business strategy in early 1999 when the public equity markets became an increasingly costly method of raising capital. As such, it was necessary for ProLogis to increase the volume of its CDFS business segment transactions so that it could self-fund its development activities. Therefore, ProLogis shifted the focus of its CDFS business segment from developing and selling properties to third parties to developing properties that would be contributed to property funds that would be formed by ProLogis with private equity capital sources, in which ProLogis would maintain an ownership position and that would each be managed by ProLogis. And, to supplement the private equity investments in each property fund, the property funds were positioned to obtain secured debt financing by using their properties as security. Today, the property funds' leverage ratios typically range from 40% to 75%. As ProLogis' property funds grew, ProLogis expanded its CDFS business segment activities to also include the acquisition of properties that would be rehabilitated and/or repositioned within the CDFS business segment prior to contribution to a property fund.

ProLogis' property fund strategy:

Allows ProLogis to realize, for financial reporting purposes, a portion of the development profits from its CDFS business activities by contributing its stabilized development properties to property funds (profits are recognized to the extent of third party investment in the property fund);

Provides diversified sources of private capital to ProLogis thereby allowing ProLogis to have less overall capital invested;

Allows ProLogis to earn fees for providing services to the property funds;

Allows ProLogis to maintain a long-term ownership position in the properties; and

Allows ProLogis, as the manager of the property funds, to maintain the market presence and customer relationships that are the key drivers of the ProLogis Operating System (see ProLogis Management ProLogis Operating System).

ProLogis' first property fund was formed in August 1999 primarily with operating properties from ProLogis' property operations segment, however subsequent property funds formed by ProLogis have primarily included properties developed by ProLogis in the CDFS business segment. ProLogis' fifteen property funds have been formed in several ways illustrating the flexibility that this business strategy affords ProLogis:

Five of ProLogis' property funds, all in the United States, were formed with an initial amount of private capital that allowed the property fund to generally make one portfolio acquisition from ProLogis;

ProLogis European Properties Fund, ProLogis Japan Properties Fund and ProLogis North American Properties Fund V were all formed with partners who have provided capital commitments to acquire properties on a continuing basis after formation;

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ProLogis and affiliates of four investment funds formed five property funds with the objective of acquiring properties from an established REIT in a business combination. These property funds also acquired properties from ProLogis; and

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Interests in two established property funds were acquired by ProLogis as part of a business combination.

As ProLogis' business strategy has evolved, the primary driver in this evolution has been ProLogis' focus on its customers' global needs for distribution space. After 13 years in operation, that focus has enabled ProLogis to become a leading global provider of distribution space operating on three continents.

ProLogis' Operating Segments

ProLogis' business is organized into two operating segments: property operations and the CDFS business.

*Property Operations**Investments*

The property operations segment represents the long-term ownership, management and leasing of industrial distribution properties. ProLogis' property operations segment at December 31, 2004 (including assets owned by 15 property funds in which ProLogis has ownership interests) consisted of 1,936 operating properties aggregating 282.8 million square feet in North America (the United States and Mexico), 11 countries in Europe and in Asia (Japan and Singapore). Of the total operating properties, ProLogis directly owned 1,228 operating properties aggregating 133.6 million square feet and its property funds owned 708 properties aggregating 149.2 million square feet. ProLogis presents its investments in the property funds under the equity method. ProLogis' ownership interests in its 15 property funds ranged from 11.5% to 50% at December 31, 2004. ProLogis' investment strategy in the property operations segment focuses primarily on generic industrial distribution properties in key distribution markets.

ProLogis develops distribution properties in its other operating segment, the CDFS business segment, with the intent to contribute the properties to property funds or to sell the properties to third parties. ProLogis also acquires properties in the CDFS business segment, with the intent to contribute them to a property fund, generally after rehabilitation and/or repositioning activities have been completed. These CDFS business properties, along with their operations, are included in the property operations segment after they are completed or acquired through the date they are contributed or sold. The gains and losses realized from the contributions or sales of these properties are included in the CDFS business segment's income because they were developed or acquired in that segment. At December 31, 2004, there were 90 CDFS business segment operating properties aggregating 18.0 million square feet at a total investment of \$897.9 million that were included in the property operations segment's investments pending contribution or sale.

Property operations segment investment activities in 2004 included:

Formation of five new United States property funds in which ProLogis has a 20% ownership interest (125 properties; 25.5 million square feet; \$1.51 billion total investment).

Disposition of 14 properties that were direct, long-term investments in the property operations segment aggregating 1.1 million square feet generating aggregate net proceeds of \$40.6 million.

In North America, ProLogis North American Properties Fund V acquired 32 properties aggregating 7.6 million square feet at a total investment of \$313.8 million, including 25 properties aggregating 4.9 million square feet at a total investment of \$215.0 million that were acquired from ProLogis.

In Europe, ProLogis European Properties Fund acquired 33 properties aggregating 7.4 million square feet at a total investment of \$599.3 million, all of which were acquired from ProLogis except for one 0.2 million square foot property at a total investment of \$9.5 million.

ProLogis Japan Properties Fund acquired eight properties aggregating 2.3 million square feet at a total investment of \$359.1 million, including three properties aggregating 1.2 million square feet at a total investment of \$220.2 million that were acquired from ProLogis.

Acquired 20% ownership interests in two property funds as part of the Keystone Transaction (26 properties; 7.7 million square feet; \$496.4 million total investment).

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Acquisition of nine properties aggregating 2.3 million square feet at a total investment of \$126.6 million as part of the keystone Transaction with the intent to own these properties directly in the property operations segment rather than to contribute these properties to property funds.

See Item 2. Properties Properties, Item 2. Properties Unconsolidated Investees Property Operations , Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Keystone Transaction and Notes 5 and 12 to ProLogis Consolidated Financial Statements in Item 8.

Operations

The property operations segment generates income from rents and reimbursements of property operating expenses from unaffiliated customers who lease ProLogis distribution space. Also, the operating income of the property operations segment includes ProLogis proportionate share of the net earnings or losses each of the property funds recognized under the equity method, along with the fee income that ProLogis earns for managing the properties owned by the property funds. In addition to property and asset management fees, ProLogis also earns fees for performing other services for the property funds, including, but not limited to, development, leasing and acquisition activities.

The net earnings or losses generated by operating properties developed or acquired in the CDFS business segment that are included in the property operations segment on an interim basis prior to their contribution or sale are also included in the net operating income of the property operations segment. The gains or losses from the contributions or sales of these properties are included in the net operating income of the CDFS business segment.

In 2004, 2003 and 2002, the property operations segment s net operating income was \$496.1 million, \$478.5 million and \$475.7 million, respectively. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Property Operations and Note 12 to ProLogis Consolidated Financial Statements in Item 8.

Operational information about this operating segment for 2004 includes:

ProLogis stabilized operating portfolio of 276.2 million square feet (including properties owned by the property funds) was 92.3% leased and 91.4% occupied at December 31, 2004. ProLogis total operating portfolio of 282.8 million square feet (including properties owned by the property funds) was 91.0% leased and 89.8% occupied at December 31, 2004. ProLogis defines its stabilized properties as those properties where the capital improvements, repositioning efforts, new management and new marketing programs for acquisitions, or the marketing programs in the case of newly developed properties, have been in effect for a sufficient period of time. A property enters the stabilized pool at the earlier of 12 months or when it is substantially leased, which is defined by ProLogis generally as 93%. Overall occupancy levels increased in 2004 from 2003. ProLogis leased percentage for the stabilized portfolio at December 31, 2004 increased to 92.3% from 90.2% at December 31, 2003.

ProLogis leased 66.0 million square feet of distribution space in 1,614 leasing transactions in its properties and in the properties owned by the property funds. Rental rates decreased by 4.7% for 2004 transactions involving previously leased space (49.5 million square feet). ProLogis weighted average customer retention rate was 68.7% for all properties in 2004. In 2003, ProLogis rental rates decreased by 4.8% for transactions involving previously leased space and its weighted average customer retention rate was 71.4%.

ProLogis same store portfolio of operating properties (properties owned by ProLogis and the property funds that were operating throughout all of 2004 and 2003) aggregated 206.3 million square feet. Rental income, excluding termination and renegotiation fees, less rental expenses of the same store portfolio increased by 0.15% in 2004 from 2003. For the same store portfolio applicable to 2003, rental income, excluding termination and renegotiation fees, less rental expenses increased by 0.09% in 2003 from 2002. See the discussion of ProLogis same store portfolio at Item 7. Management s Discussion

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and Analysis of Financial Condition and Results of Operations Results of Operations Property Operations.

ProLogis earned termination and renegotiation fees of \$2.5 million related to leases in its directly owned properties in 2004. Such fees in 2003 were \$5.6 million. In certain leasing situations, ProLogis finds it advantageous to negotiate lease terminations with a customer, particularly when the customer is experiencing financial difficulties or when ProLogis believes that it can re-lease the space at rates that, when combined with the termination fee, provide a total return to ProLogis in excess of that which was being earned under the original lease terms.

ProLogis earned various fees from the property funds, primarily from property management and asset management services, of \$50.8 million in 2004 as compared to \$44.2 million in 2003.

Market Presence

At December 31, 2004, the 1,228 properties aggregating 133.6 million square feet in the property operations segment that are owned directly by ProLogis are located in 39 markets in the United States, four markets in Mexico, 12 markets in five countries in Europe, in Osaka, Japan (one property that was developed in the CDFS business segment that is approximately 27% leased at December 31, 2004) and in Singapore (one property acquired in 2004). ProLogis' largest property operations segment markets in the United States (based on investment in directly owned properties) are Atlanta, Chicago, Dallas/ Fort Worth, Houston and San Francisco (Central Valley, East Bay and South Bay markets). ProLogis' largest holdings in the property operations segment in Europe are in the United Kingdom, primarily the London and Southeast market. Property operations segment properties in Europe are primarily properties that were developed or acquired in the CDFS business segment that have not yet been contributed or sold. See CDFS Business and Item 2. Properties Geographic Distribution and Item 2. Properties Properties.

The operating properties owned by the property funds at December 31, 2004 were as follows (square feet in thousands):

	Number	Square Feet
ProLogis California(1)	81	14,204
ProLogis North American Properties Fund I(2)	36	9,406
ProLogis North American Properties Fund II(3)	27	4,477
ProLogis North American Properties Fund III(4)	34	4,380
ProLogis North American Properties Fund IV(5)	17	3,475
ProLogis North American Properties Fund V(6)	119	28,267
ProLogis North American Properties Fund VI(7)	22	8,648
ProLogis North American Properties Fund VII(8)	29	6,055
ProLogis North American Properties Fund VIII(9)	24	3,065
ProLogis North American Properties Fund IX(10)	21	3,504
ProLogis North American Properties Fund X(11)	29	4,191
ProLogis North American Properties Fund XI(12)	14	4,315
ProLogis North American Properties Fund XII(13)	12	3,364
ProLogis European Properties Fund(14)	230	47,921
ProLogis Japan Properties Fund(15)	13	3,869
Totals	708	149,141

(1) All properties are located in the Los Angeles/ Orange County market.

- (2) Properties are located in 17 markets in the United States.
- (3) Properties are located in 13 markets in the United States.

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- (4) Properties are located in 15 markets in the United States.
- (5) Properties are located in 10 markets in the United States.
- (6) Properties are located in 24 markets in the United States and in four markets in Mexico.
- (7) Properties are located in eight markets in the United States (property fund was formed in 2004).
- (8) Properties are located in nine markets in the United States (property fund was formed in 2004).
- (9) Properties are located in 10 markets in the United States (property fund was formed in 2004).
- (10) Properties are located in eight markets in the United States (property fund was formed in 2004).
- (11) Properties are located in 11 markets in the United States (property fund was formed in 2004).
- (12) Properties are located in three markets in the United States (ProLogis acquired an ownership interest in this existing property Fund in 2004).
- (13) Properties are located in two New Jersey markets (ProLogis acquired an ownership interest in this existing property Fund in 2004).
- (14) Properties are located in 26 markets in 11 countries in Europe (70 properties, 12.6 million square feet located in the Central France market, primarily in Paris).
- (15) Properties are located in the Tokyo, Nagoya and Osaka markets in Japan.

See Item 2. Properties Geographic Distribution for a discussion of ProLogis defined markets and Item 2. Properties Unconsolidated Investees Property Operations for additional information on the operating properties owned by the property funds.

Competition

In general, numerous other industrial distribution properties are located in close proximity to ProLogis properties. The amount of rentable distribution space available in any market could have a material effect on ProLogis ability to rent space and on the rents that ProLogis can charge. In addition, in many of ProLogis submarkets, institutional investors and owners and developers of industrial distribution properties (including other REITs) compete for the acquisition, development and leasing of distribution space. Many of these entities have substantial resources and experience. Competition in acquiring existing distribution properties and land, both from institutional capital sources and from other REITs, has been very strong over the past several years.

Property Management

ProLogis business strategy includes a customer service focus that requires ProLogis to provide responsive, professional and effective property management services at the local level. To enhance its management services, ProLogis has developed and implemented proprietary operating and training systems to achieve consistent levels of performance and professionalism in all markets and to enable its property management team members to give the proper level of attention to ProLogis customers throughout its network. ProLogis manages substantially all of its directly owned operating properties and all of the operating properties owned by the property funds.

Customers

ProLogis has developed a customer base that is diverse in terms of industry concentration and that represents a broad spectrum of international, national, regional and local distribution space users. At December 31, 2004, ProLogis and the property funds had 4,114 customers occupying 254.0 million square feet of distribution space. Including customers leasing space in properties owned by the property funds, the largest customer and the 25 largest customers accounted for 2.25% and 22.1%, respectively, of the annualized collected base rents of ProLogis and the property

funds at December 31, 2004. When the customers leasing space in the properties owned by the property funds are excluded, ProLogis' largest customer and its 25 largest customers accounted for 1.35% and 15.6%, respectively, of ProLogis' annualized collected base rents at December 31, 2004.

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Employees

ProLogis directly employs approximately 830 persons. ProLogis employees work in North America (approximately 560 persons), in nine countries in Europe (approximately 210 persons) and in three countries in Asia (approximately 60 persons). Of the total, approximately 360 employees are assigned to the property operations segment. ProLogis other employees may assist with property operations segment activities. ProLogis believes that its relationships with its employees are good. ProLogis employees are not represented by a collective bargaining agreement.

Seasonal Nature of the Business

The demand for industrial distribution space is not seasonal.

Future Plans

The growth in ProLogis property operations segment in 2004 was primarily through ProLogis property fund portfolios, rather than in ProLogis direct investments. ProLogis current business plan with respect to direct investments in the property operations segment allows for the expansion of its network of operating properties as necessary to: (i) facilitate larger transactions completed by property funds; (ii) address the specific expansion needs of a customer; (iii) initiate or enhance its market presence in a specific country, market or submarket; or (iv) take advantage of opportunities where ProLogis believes it has the ability to achieve favorable returns.

ProLogis expects to continue to increase the assets held by its property funds. ProLogis expects to achieve this growth through the property funds acquisition of properties that have been developed or acquired by ProLogis in the CDFS business segment, but also by the property funds direct acquisition of properties from third parties as was done in 2004 with the formation of five new property funds. ProLogis expects that the fee income it earns from the property funds will increase in 2005 over the 2004 level as the sizes of the portfolios of operating properties in the property funds increase. And, depending on capital availability, ProLogis could also form new property funds in 2005.

ProLogis intends to fund its investment activities in the property operations segment in 2005 primarily with operating cash flow from this operating segment, its lines of credit and short-term borrowing facilities and the proceeds from contributions and sales of properties (properties that have been directly owned, long-term investments in the property operations segment, as well as CDFS business segment properties that are included in the property operations segment on an interim basis prior to their contribution or sale).

See the discussion of factors that could affect the future plans of ProLogis and the property funds in the property operations segment at Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Factors.

CDFS Business

The CDFS business segment encompasses those activities that ProLogis engages in that are not primarily associated with the long-term ownership, management and leasing of industrial distribution properties. Within this operating segment, ProLogis develops distribution properties that are either contributed to property funds or sold to third parties and acquires distribution properties that are contributed to property funds. ProLogis maintains an ownership in, and acts as manager of the property funds. Properties that are acquired by ProLogis in this segment are generally rehabilitated and/or repositioned prior to their contribution to a property fund.

Investments

At December 31, 2004, ProLogis had 58 distribution properties aggregating 15.1 million square feet under development at a total expected cost at completion of \$1.08 billion. These properties are all being developed

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with the objective that they will be contributed to a property fund or sold to a third party. ProLogis properties under development at December 31, 2004 include:

North America: 20 properties; 5.7 million square feet; \$228.2 million total expected cost (approximately 21% of the total);

Europe: 30 properties in nine countries; 5.7 million square feet; \$448.6 million total expected cost (approximately 41% of the total); and

Asia: eight properties; 3.7 million square feet; \$407.8 million total expected cost (approximately 38% of the total).

In addition to the properties under development that ProLogis owns directly, CDFS joint ventures in which ProLogis has 50% ownership interests had three properties under development aggregating 1.0 million square feet at a total expected cost at completion of \$30.5 million (one property in the United States and two properties in China).

At December 31, 2004 ProLogis and its unconsolidated investees had land positions, including land controlled through contracts, options or letters of intent, aggregating 4,954 acres with the capacity for the development of approximately 84.5 million square feet of distribution properties. Of these land positions, ProLogis directly owned 2,991 acres with the capacity for the development of approximately 52.0 million square feet of distribution properties. ProLogis land positions owned at December 31, 2004 included:

North America: 1,952 acres with the capacity for the development of approximately 33.7 million square feet of distribution properties (1,719 acres, 29.4 million buildable square feet in the United States, 99 acres, 1.9 million buildable square feet in Mexico and 134 acres, 2.4 million buildable square feet in Canada) and

Europe: 1,039 acres in 10 countries with the capacity for the development of approximately 18.3 million square feet of distribution properties.

CDFS business segment investment activities in 2004 included the following:

ProLogis began development on three properties aggregating 0.5 million square feet in Shanghai, China at a total expected cost at completion of \$18.1 million. Also, a joint venture in which ProLogis has a 50% ownership interest, acquired four operating properties aggregating 0.2 million square feet at a total acquisition cost of \$7.3 million in Shanghai and began development on two properties aggregating 0.2 million square feet at a total expected cost at completion of \$7.8 million in Shanghai. This joint venture's future activities will include both the acquisition of properties that will be rehabilitated and/ or positioned as well as the development of properties that will be operated in this joint venture or in a property fund. This joint venture operates solely in the Suzhou province of the Shanghai market.

ProLogis acquired land in Toronto for development of its first property in Canada.

Direct development starts by ProLogis aggregated 18.9 million square feet at a total expected cost at completion of \$1.21 billion including:

North America: 8.0 million square feet at a total expected cost of \$313.4 million;

Europe: 7.2 million square feet at a total expected cost of \$493.2 million; and

Asia: 3.7 million square feet at a total expected cost of \$407.8 million (including the three direct development starts in China).

Direct development completions by ProLogis aggregated 13.6 million square feet at a total cost of \$862.8 million including:

North America: 5.4 million square feet at a total cost of \$186.2 million;

Europe: 5.6 million square feet at a total cost of \$345.4 million; and

Asia: 2.6 million square feet at a total cost of \$331.2 million.

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Direct acquisition of 21 operating properties by ProLogis aggregating 4.6 million square feet at a total acquisition cost of \$196.2 million with the intent to contribute the properties to a property fund (including properties where rehabilitation and/or repositioning efforts are needed prior to contribution).

Contributions and sales of 91 properties aggregating 19.5 million square feet that were developed or acquired by ProLogis in the CDFS business segment. These transactions along with dispositions of land parcels that no longer fit in ProLogis development plans generated net proceeds to ProLogis of \$1.56 billion.

Direct acquisitions of land by ProLogis included 1,313 acres of land: 521 acres in North America (387 acres in the United States and 134 acres in Canada), 717 acres in eight countries in Europe and 75 acres in Asia (including 26 acres in China acquired under ground lease). This land can be used for the development of approximately 25.7 million square feet of distribution properties.

Operations

The operating income of the CDFS business segment consists primarily of the net gains and losses recognized from the contributions and sales of developed properties to property funds and third parties and from the contributions to property funds of operating properties that were acquired with that intent. ProLogis uses its development and leasing expertise to rehabilitate and/ or reposition certain of the properties that it acquires such that the subsequent contribution of the property is expected to generate a profit to ProLogis. ProLogis also earns fees from customers for development activities performed on their behalf and recognizes gains and losses from sales of land parcels when ProLogis development plans no longer include these parcels.

In 2004, 2003 and 2002, the CDFS business segment's net operating income was \$174.3 million, \$124.8 million and \$152.3 million, respectively. In 2004, 27% of the net operating income of this operating segment was generated in North America, 53% was generated in Europe and 20% was generated in Asia. In 2003, 39% of the net operating income of this operating segment was generated in North America, 39% was generated in Europe and 22% was generated in Asia (all in Japan). For 2002, 37% of the net operating income of this operating segment was generated in North America, 59% was generated in Europe and 4% was generated in Asia (all in Japan).

Operational information about this operating segment for 2004 includes:

Recognition of net gains of \$177.0 million (including amounts that had been previously deferred and contingent proceeds); \$130.7 million related to sales and contributions of developed properties, \$20.1 million related to contributions of acquired properties and \$26.2 million related to dispositions of land parcels.

Earned \$2.7 million of fees from the development activities performed for customers and other income.

Incurred expenses and other charges of \$5.5 million

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations - CDFS Business and Note 12 to ProLogis Consolidated Financial Statements in Item 8.

Market Presence

ProLogis CDFS business segment operates in substantially all of ProLogis property operations segment's markets. At December 31, 2004, ProLogis had properties under development in 14 markets in North America (12 markets in the United States and two markets in Mexico), 12 markets in nine countries in Europe and three markets in Asia (Tokyo and Osaka in Japan and in Shanghai, China). At December 31, 2004, the land positions owned by ProLogis were located in 31 markets in North America (27 markets in the United States, three markets in Mexico and in Toronto, Canada) and 18 markets in 10 countries in Europe. At December 31, 2004, ProLogis had begun development on all of its land holdings in Japan and China.

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Competition

ProLogis believes it has differentiated itself from its competitors as it is the only owner of distribution properties and provider of services with significant global operations and holdings in many key global distribution markets that allow it to operate on a consistent basis in many global markets.

North America There are a number of other national, regional and local developers engaged in the industrial distribution property development markets where ProLogis conducts business. ProLogis competes with these developers for land acquisition and development opportunities. The disposition market in North America is very competitive and is driven by the supply of new developments, access to capital and interest rate levels. A key component of ProLogis' success in the CDFS business segment in North America will continue to be its ability to develop and timely lease properties that will generate profits when contributed or sold and its ability to continue to access private capital that allows for the continued acquisition of ProLogis' properties by the property funds.

Europe ProLogis' competition in the CDFS business segment in Europe generally comes from local and regional developers in its target markets as opposed to pan-European real estate companies. As in North America, the disposition market in Europe is very competitive and is driven by the supply of new developments, access to capital and interest rate levels. With respect to its development activities in Europe, ProLogis believes that it has additional competitive advantages due to the strategic locations of its land positions owned or under control in Europe and due to its personnel who are experienced in the land entitlement process.

Asia ProLogis' competition in the CDFS business segment in Asia generally comes from local and regional developers as opposed to real estate companies operating in several countries, as does ProLogis. ProLogis believes that it has additional competitive advantages over the local development companies in Japan and China due to its global experience in the development of distribution properties, its relationships with key customers established by its local personnel and its global customer base.

Customers

ProLogis uses the customer relationships that it has developed through its property operations segment activities and the ProLogis Operating System in marketing its CDFS business. See **Property Operations Customers and ProLogis Management**. In 2004, approximately 49% of the customers that leased distribution space in ProLogis CDFS business segment properties were repeat customers of ProLogis.

Employees

ProLogis directly employs approximately 830 persons. ProLogis' employees work in North America (approximately 560 persons), in nine countries in Europe (approximately 210 persons) and in three countries in Asia (approximately 60 persons). Of the total, approximately 145 employees are assigned to the CDFS business segment. ProLogis' other employees may assist with CDFS business segment activities. ProLogis believes that its relationships with its employees are good. ProLogis' employees are not represented by a collective bargaining agreement.

Seasonal Nature of the Business

The demand for industrial distribution properties that are developed or acquired in the CDFS business segment is not seasonal in nature. However, the development process can be impeded by weather in certain markets, particularly during the winter months, affecting the scheduling of development activities and potentially delaying construction starts and completions.

Future Plans

ProLogis intends to continue to conduct the business of the CDFS business segment as it has in the past. To be successful in the CDFS business segment, ProLogis must be able to: (i) develop, acquire and rehabilitate or reposition and timely lease properties and (ii) access private capital through third party

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transactions or that can be used by a property fund to acquire CDFS business properties. With respect to the first requirement for success, ProLogis has demonstrated that it has the ability to develop and acquire properties that can be disposed of in this operating segment and generate profits. The ability to lease its properties is dependent on the demand for industrial distribution space. Properties contributed to property funds must generally meet specified leasing criteria. ProLogis experienced stronger leasing activity in 2004 than in 2003 and 2002. ProLogis expects some improvement in leasing for 2005 based on its expectations for economic conditions in its target markets. ProLogis market research and customer feedback indicate that consolidation and reconfiguration of supply chains driven by the need for distribution space users to add efficiencies within their distribution networks will continue to favorably impact the demand for distribution properties and the distribution-related services that ProLogis offers in the CDFS business segment in 2005. Also, the limited supply of state-of-the-art distribution space in Europe and Asia and ProLogis' position of being a single-source provider of distribution space could also provide opportunities within this operating segment. ProLogis believes that it has differentiated itself from its competitors by providing high quality customer service which can partially mitigate the impact of declines in market leasing activities over time. For the past two years, approximately 49% of the customers that leased distribution space in ProLogis' CDFS business segment properties were repeat customers of ProLogis.

ProLogis intends to utilize the capital generated through the contributions and sales of properties, the proceeds from public debt and equity offerings that take advantage of favorable market conditions and its short-term borrowing facilities to fund its future CDFS business activities. Further, ProLogis intends to actively pursue other sources of committed capital to form new property funds that will acquire ProLogis' CDFS business properties.

ProLogis is committed to offer to contribute all of its stabilized development properties available in specific markets in Europe to ProLogis European Properties Fund through September 2019 and all of its stabilized development properties available in Japan to ProLogis Japan Properties Fund through June 2006. These property funds are committed to acquire such properties, subject to the property meeting certain specified criteria, including leasing criteria, and having available capital. ProLogis believes that, while the current capital commitments and borrowing capacities of these property funds may be expended prior to the expiration dates of these commitments, each property fund does have sufficient capital to acquire the properties that ProLogis expects to have available during 2005.

ProLogis North American Properties Fund V has the right of first offer to all of ProLogis' stabilized development properties that ProLogis desires to sell in North America (except those properties that are subject to an agreement with ProLogis California) through the end of 2005. Properties subject to the right of first offer must meet certain specified criteria, including leasing criteria. While ProLogis North American Properties Fund V's majority owner is a listed property trust in Australia that is able to raise capital in the public market, there can be no assurance that ProLogis North American Properties Fund V will have the available capital to acquire additional properties from ProLogis in 2005 or, if capital is available, that ProLogis North American Properties Fund V will want to use its capital to acquire properties from ProLogis. Should ProLogis North American Properties Fund V choose not to acquire, or not have sufficient capital available to acquire, a property that meets the specified criteria, its rights under the agreement will terminate.

There can be no assurance that if existing property funds do not continue to acquire the properties that ProLogis has available, that ProLogis will be able to secure other sources of private equity capital such that it can contribute or sell these properties in a timely manner and allow ProLogis to continue to generate profits from its development activities in a particular reporting period.

See the discussion of factors that could affect the future plans of ProLogis, in the CDFS business segment at

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Risk Factors.

ProLogis Management

ProLogis' management team is headed by its Chief Executive Officer, Jeffrey H. Schwartz and its President, Chief Operating Officer and Chief Financial Officer, Walter C. Rakowich. Mr. Schwartz and

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Mr. Rakowich also serve as Trustees on ProLogis Board of Trustees (the Board). On December 31, 2004, K. Dane Brooksher relinquished his role as Chief Executive Officer of ProLogis. Mr. Brooksher remains ProLogis Chairman and he continues to serve ProLogis as a Trustee. Also on December 31, 2004, Irving F. Lyons III relinquished his role as Chief Investment Officer of ProLogis. Mr. Lyons remains ProLogis Vice Chairman and he continues to serve ProLogis as a Trustee and as Chairman of the Board's Investment Committee.

In addition to the leadership and oversight provided by Mr. Schwartz and Mr. Rakowich, ProLogis investments and operations are overseen by John W. Seiple, Jr., President and Chief Executive Officer North America, Robert J. Watson, President of North America Operations and Steven K. Meyer, President and Chief Operating Officer Europe. Further, in North America, each of ProLogis five regions (Northeast, Mid-West, Southeast, Central/ Mexico and Pacific) is led by two senior members of the management team one who is responsible for capital management and one who is responsible for capital deployment. The three regions in Europe (Northern and Central Europe, Southern Europe and the United Kingdom) are each led by a senior officer who has both capital management and capital deployment responsibilities. In Asia, ProLogis capital management and capital deployment responsibilities are handled by four senior officers (two in Japan and two in China).

ProLogis maintains a Code of Ethics and Business Conduct applicable to its Board and all of its officers and employees, including the principal executive officer, the principal financial officer, the principal accounting officer, the controller or persons performing similar functions. A copy of ProLogis Code of Ethics and Business Conduct is available on ProLogis website, www.prologis.com. In addition to being accessible through ProLogis website, copies of ProLogis Code of Ethics and Business Conduct can be obtained, free of charge, upon written request to Investor Relations, 14100 East 35th Place, Aurora, Colorado 80011. Any amendments to or waivers of ProLogis Code of Ethics and Business Conduct that apply to the principal executive officer, the principal financial officer, the principal accounting officer, the controller or persons performing similar functions and that relate to any matter enumerated in Item 406(b) of Regulation S-K, will be disclosed on ProLogis website.

The reference to ProLogis website address does not constitute incorporation by reference of the information contained in the website and such information should not be considered to be part of this document.

ProLogis Operating System

ProLogis management team is responsible for overseeing the use the ProLogis Operating System, the cornerstone of ProLogis business strategy, to allow ProLogis to achieve long-term sustainable growth in cash flow and sustain a high level of return on equity for its shareholders. The ProLogis Operating System is a proprietary property management and customer service delivery system that has been designed to assist ProLogis professional management team in providing a unique and disciplined approach to serving existing and prospective customers. ProLogis believes that, through the ProLogis Operating System, it is, and will continue to be, well positioned to leverage its customer relationships to generate additional business opportunities.

Capital Management and Capital Deployment

Within the ProLogis Operating System, ProLogis has a team of professionals who are responsible for managing and leasing the properties owned by ProLogis and the property funds. These capital management team members are part of the Market Services Group. ProLogis has 38 Market Officers who are primarily responsible for understanding and meeting the needs of existing and prospective customers in their respective markets. In addition, the Market Officers, along with their team of property management and leasing professionals, use their knowledge of local market conditions to assist the Global Services Group in identifying and accommodating those customers with multiple market requirements and assist in the marketing efforts directed at those customers. The Market Officers ability to serve customers in the local market is enhanced by their access to ProLogis national and international resources. The focus of the Market Officers has been, and

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continues to be, on: (i) managing the capital invested in their markets; (ii) creating and maintaining relationships with customers, potential customers and industrial brokers; (iii) leasing ProLogis properties; and (iv) identifying potential acquisition and development opportunities in their markets.

Capital deployment is the responsibility of a team of professionals who focus on ensuring that ProLogis capital resources are deployed in an efficient and productive manner that will best serve ProLogis long-term objective of increasing shareholder value. The team members responsible for capital deployment evaluate both acquisition and development opportunities in light of the market conditions in their respective regions and ProLogis overall goals and objectives. Capital deployment officers work closely with the Global Development Group to create master-planned distribution parks utilizing the extensive experience of the Global Development team members. The Global Development Group incorporates the latest technology with respect to building design and systems and has developed standards and procedures that it strictly adheres to in the development of all properties to ensure that properties developed by ProLogis are of a consistent quality.

Customer Service

The Global Services Group provides services to a group of the largest users of distribution space that ProLogis has identified as its targeted customer base. The Global Services Group's primary focus is to position ProLogis as the preferred provider of distribution space to these targeted customers. The professionals in the Global Services Group also seek to build long-term relationships with ProLogis existing customers by addressing their distribution and logistics needs. The Global Services Group provide ProLogis customers with network optimization tools, strategic site selection assistance, business location services (including tax incentive analysis and tax negotiation consulting), material handling equipment and design consulting services.

Trustees

K. Dane Brooksher 66 Mr. Brooksher has served as a Trustee since October 1993. Mr. Brooksher has been Chairman of ProLogis since March 1999 and he was Chief Executive Officer from March 1999 to December 2004. From November 1993 to March 1999, Mr. Brooksher was Co-Chairman and Chief Operating Officer of ProLogis. Prior to joining ProLogis, Mr. Brooksher was Area Managing Partner and Chicago Office Managing Partner of KPMG Peat Marwick (now KPMG LLP), independent public accountants, where he served on the Board of Directors and Management Committee and as International Development Partner for Belgium and The Netherlands. Mr. Brooksher is a Director of Pactiv Corporation and Qwest Communications International Inc. Mr. Brooksher serves as an Advisory Board Member of the J.L. Kellogg School of Management of Northwestern University. Mr. Brooksher's term as Trustee expires in 2005.

Irving F. Lyons, III 55 Mr. Lyons has served as a Trustee since March 1996. Mr. Lyons has been Vice Chairman of ProLogis since December 2001 and he was Chief Investment Officer of ProLogis from March 1997 to December 2004. Mr. Lyons was President of ProLogis from March 1999 to December 2001, Co-Chairman of ProLogis from March 1997 to March 1999 and Managing Director of ProLogis from December 1993 to March 1997. Prior to joining ProLogis, Mr. Lyons was the Managing Partner of King & Lyons, a San Francisco Bay Area industrial real estate development and management company, since its inception in 1979. Mr. Lyons' term as Trustee expires in 2006.

Jeffrey H. Schwartz 45 Chief Executive Officer of ProLogis since January 2005. Mr. Schwartz was President of International Operations of ProLogis from March 2003 to December 2004 and he was President and Chief Operating Officer Asia from March 2002 to December 2004. Mr. Schwartz was President and Chief Executive Officer of Vizional Technologies, Inc. (Vizional Technologies), previously an unconsolidated investee of ProLogis from September 2000 to February 2002. From October 1994 to August 2000, Mr. Schwartz was with ProLogis, most recently as Vice Chairman for International Operations. Prior to originally joining ProLogis in October 1994, Mr. Schwartz was a founder and managing partner of The Krauss/ Schwartz Company, an industrial real estate developer in Florida. Mr. Schwartz was appointed to the

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Board in August 2004 and he will stand for election as a Trustee at ProLogis' 2005 annual meeting of shareholders.

Walter C. Rakowich 47 President and Chief Operating Officer of ProLogis since January 2005 and Chief Financial Officer of ProLogis since December 1998. Mr. Rakowich was Managing Director of ProLogis from December 1998 to December 2004. Mr. Rakowich will relinquish his role as Chief Financial Officer at the time a new Chief Financial Officer is named (expected to be in the second quarter of 2005). Mr. Rakowich has been with ProLogis in various capacities since July 1994. Prior to joining ProLogis, Mr. Rakowich was a consultant to ProLogis in the area of due diligence and acquisitions and he was a Principal with Trammell Crow Company, a diversified commercial real estate company in North America. Mr. Rakowich was appointed to the Board in August 2004 and he will stand for election as a Trustee at ProLogis' 2005 annual meeting of shareholders.

Stephen L. Feinberg 60 Mr. Feinberg has served as a Trustee since January 1993. Mr. Feinberg has been Chairman of the Board and Chief Executive Officer of Dorsar Investment Co., Inc., a diversified holding company with interests in real estate and venture capital, since 1970. Mr. Feinberg is also a Director of Security Capital Preferred Growth, an affiliate of Security Capital Group Incorporated (Security Capital), previously ProLogis' largest shareholder, Continental Transmission Corporation, MetaMetrics, Inc., St. John's College and The Feinberg Foundation, Inc. He was formerly Chairman of the Board of St. John's College and a former Director of Farrar, Strauss and Giroux, Inc. (a private publishing company), Molecular Informatics, Inc., Border Steel Mills, Inc., Springer Building Materials Corporation, Circle K Corporation, EnerServ Products, Inc. and Texas Commerce Bank-First State. Mr. Feinberg's term as Trustee expires in 2007.

George L. Fotiades 51 Mr. Fotiades has served as a Trustee since December 2001. Mr. Fotiades is President and Chief Operating Officer of Cardinal Health, Inc., a provider of services supporting the health-care industry. Prior thereto, Mr. Fotiades was President and Chief Executive Officer of Life Services Products and Services, a unit of Cardinal Health Inc. Mr. Fotiades was President and Chief Operating Officer of R. P. Scherer Corporation (which was merged into Cardinal Health, Inc. in August 1998), Executive Vice President and Group President from 1996 to 1998 and Group President of the Americas and Asia Pacific from 1996 to 1998. Mr. Fotiades' term as Trustee expires in 2006.

Donald P. Jacobs 77 Mr. Jacobs has served as a Trustee since February 1996. Mr. Jacobs has been a faculty member of the J.L. Kellogg School of Management of Northwestern University since 1957 and Mr. Jacobs is currently Dean Emeritus, having served as Dean from 1975 until 2001. Mr. Jacobs is a Director of Terex Corporation and CDW Computer Centers. Mr. Jacobs was formerly a Director of Commonwealth Edison and its parent company, Unicom and he was formerly the Chairman of the Public Review Board of Andersen Worldwide. Mr. Jacobs was Chairman of the Advisory Committee of the Oversight Board of the Resolution Trust Corporation for the third region from 1990 to 1992, Chairman of the Board of AMTRAK from 1975 to 1979, Co-Staff Director of the Presidential Commission on Financial Structure and Regulation from 1970 to 1971 and Senior Economist for the Banking and Currency Committee of the U.S. House of Representatives from 1963 to 1964. Mr. Jacobs' term as Trustee expires in 2007.

Kenneth N. Stensby 65 Mr. Stensby has served as a Trustee since March 1999. Mr. Stensby was Senior Vice President, Mortgage Origination, with Heitman Real Estate Investment Management from September 2003 to August 2004. Mr. Stensby was a Director of Meridian Industrial Trust Inc. from 1996 to March 1999, when it was merged with and into ProLogis. Mr. Stensby was President and Chief Executive Officer of United Properties, a Minneapolis-based diversified real estate company, from 1974 until his retirement in January 1995. Mr. Stensby is past President of the National Association of Industrial and Office Parks and was a Director of First Asset Realty Advisors, a pension advisory subsidiary of First Bank of Minneapolis. Mr. Stensby's term as Trustee expires in 2005.

D. Michael Steuert 56 Mr. Steuert has served as a Trustee since September 2003. Mr. Steuert has been Senior Vice President and Chief Financial Officer of Fluor Corporation, a publicly owned engineering and construction firm, since 2001. Mr. Steuert was Senior Vice President and Chief Financial Officer of Litton Industries, Inc. from 1999 to 2001. Prior thereto, Mr. Steuert was Senior Vice President and Chief Financial Officer for GenCorp, Inc. Mr. Steuert has served as a Trustee of the Mental Health Association of Summit

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County (Ohio), regional director of the Financial Executive's Institute and Director of GenCorp, Inc. board of directors. Mr. Steuert is a Director of Weyerhaeuser Corporation. Mr. Steuert's term as Trustee expires in 2007.

J. André Teixeira 52 Mr. Teixeira has served as a Trustee since February 1999. Mr. Teixeira was Vice President, Global Innovation and Development of InBev, formerly Interbrew, a publicly traded brewer in Belgium, from February 2003 to October 2004. He was Chairman and Senior Partner with BBL Partners LLC, Moscow, Russia, a consulting and trading company specializing in the food and food ingredient industry, from 2001 to 2002 and he was the President of Coca-Cola for the Russia and Ukraine region, General Manager of Coca-Cola Russia, Ukraine and Belarus and Head of Representation for the Coca-Cola Export Corporation, Moscow from 2000 to 2001. Mr. Teixeira was General Manager/ President of the Coca-Cola Ukraine and Belarus region, Kiev from 1998 to 2000 and was with Coca-Cola in various capacities since 1978. Mr. Teixeira's term as Trustee expires in 2007.

William D. Zollars 57 Mr. Zollars has served as a Trustee since June 2001. Mr. Zollars has been Chairman, President and Chief Executive Officer of Yellow Roadway Corporation, a holding company specializing in transportation of industrial, commercial and retail goods, since 1999. From 1996 to 1999, Mr. Zollars was President of Yellow Freight System Inc., Yellow Roadway Corporation's principal operating subsidiary, and he was a Senior Vice President of Ryder Integrated Logistics, Inc. from 1994 to 1996. Mr. Zollars is a Director of CIGNA Corporation. Mr. Zollars' term as Trustee expires in 2006.

Senior Officers

John W. Seiple, Jr. 45 President North America since December 2001 and Chief Executive Officer North America since August 2004. Mr. Seiple was ProLogis' Chief Investment Officer North America from February 2004 to August 2004 and he was ProLogis' Chief Operating Officer North America from December 1998 to February 2004. Mr. Seiple has been with ProLogis in various capacities since October 1993. Mr. Seiple is a Director of Insight Inc. (an unconsolidated investee of ProLogis - see Note 5 to ProLogis' Consolidated Financial Statements in Item 8). Prior to joining ProLogis, Mr. Seiple was a Senior Vice President with Trammell Crow Company, a diversified commercial real estate company in North America.

Robert J. Watson 55 President of North America Operations since January 2004. Mr. Watson was President and Chief Operating Officer Europe of ProLogis from December 1998 to January 2004 and has been with ProLogis in various capacities since November 1992. Prior to joining ProLogis, Mr. Watson was the Regional Partner for Southwest United States Real Estate with Trammell Crow Company, a diversified commercial real estate company in North America.

Steven K. Meyer 56 President and Chief Operating Officer Europe since January 2004. Mr. Meyer was Managing Director of ProLogis from December 1998 to January 2004, where he had capital deployment responsibilities for the Central/ Mexico region and has been with ProLogis in various capacities since September 1994. Prior to joining ProLogis, Mr. Meyer was an Executive Vice President with Trammell Crow Company, a diversified commercial real estate company in North America.

Paul C. Congleton 50 Managing Director North American Fund Management and Real Estate Research of ProLogis since September 1999, where he has fund management and research responsibilities in North America. Mr. Congleton has been with ProLogis in various capacities since January 1995. Prior to joining ProLogis, Mr. Congleton was Managing Principal with Overland Company, a property management, leasing and consulting company based in Arizona.

Alan J. Curtis 57 Managing Director Market Services and Global Development United Kingdom of ProLogis since December 2002, where he has capital management and deployment responsibilities for the United Kingdom. Mr. Curtis has been with ProLogis or an investee of ProLogis in various capacities since June 1997. Prior thereto, Mr. Curtis was with Gazely Properties as a Senior Development Surveyor with responsibilities for the Midlands market of the United Kingdom.

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Ranald A. Hahn 49 Managing Director Southern Europe of ProLogis since December 2002, where he has capital management and deployment responsibilities for Southern Europe. Mr. Hahn has been with ProLogis in various capacities since March 1999. Prior to joining ProLogis, Mr. Hahn was the International Business Development Director of GSE, a French logistics construction company.

Luke A. Lands 48 Managing Director since December 2004 and Controller of ProLogis since August 2000. Mr. Lands was Senior Vice President of ProLogis from August 2000 to December 2004. As Controller, Mr. Lands supervises ProLogis' accounting, financial reporting and financial forecasting functions. Mr. Lands will relinquish his role as Controller at the time a new Controller is named (expected to occur in the second quarter of 2005) and will become ProLogis' Chief Financial Officer for Europe. Mr. Lands has been with ProLogis in various capacities since January 1996. Prior to joining ProLogis, Mr. Lands was Vice President of SCG Realty Services, an affiliate of Security Capital. Prior thereto, Mr. Lands was Vice President and Controller for Lincoln Property Company, a diversified national real estate operating company. Mr. Lands is a Certified Public Accountant.

Masato Miki 40 Managing Director Japan of ProLogis since December 2004, where he is responsible for acquisitions, finance operations and fund management in Japan. Mr. Miki was Senior Vice President of ProLogis from January 2004 to December 2004 with similar responsibilities in Japan and he has been with ProLogis since August 2002. Prior to joining ProLogis, Mr. Miki was Vice President of Mitsui Fudosan Investment Advisors, Inc., an affiliate of Mitsui Fudosa Co., Ltd., a comprehensive real estate company in Japan.

Edward S. Nekritz 39 Managing Director of ProLogis since December 2002, General Counsel of ProLogis since December 1998 and Secretary of ProLogis since March 1999, where he oversees the provision of all legal services for ProLogis and is responsible for ProLogis' Risk Management and Asset Services departments. Mr. Nekritz has been with ProLogis in various capacities since September 1995. Prior to joining ProLogis, Mr. Nekritz was an attorney with Mayer, Brown & Platt (now Mayer, Brown, Rowe & Maw LLP).

John R. Rizzo 55 Managing Director Global Development North America/Asia of ProLogis since December 2000, where he is responsible for the Global Development Group in North America and Asia. Mr. Rizzo has been with ProLogis in various capacities since January 1999. Prior to joining ProLogis, Mr. Rizzo was Senior Vice President and Chief Operating Officer of Perini Management Services Incorporated, an affiliate of Perini Corporation which is a construction management and general contracting firm.

Robin P. R. von Weiler 48 Managing Director Market Services and Global Development Northern and Central Europe of ProLogis since December 1999, where he has capital management and deployment responsibilities for Northern and Central Europe. Mr. von Weiler has been with ProLogis in various capacities since October 1997. Prior to joining ProLogis, Mr. von Weiler was with DTZ Zadelhoff V.O.F., part of DTZ Debenham Tie Lung, in Rotterdam, The Netherlands, most recently as Vice Managing Director, Real Estate Agent and Corporate Advisor.

Mike Yamada 51 Managing Director Japan of ProLogis since December 2004, where he is responsible for development and leasing activities in Japan. Mr. Yamada was a Senior Vice President of ProLogis from January 2004 to December 2004 with similar responsibilities in Japan and he has been with ProLogis since April 2002. Prior to joining ProLogis, Mr. Yamada was a Senior Officer of Fujita Corporation, a construction company in Japan.

Gary E. Anderson 39 Senior Vice President of ProLogis since May 2003, where he has capital deployment responsibilities for the Central/ Mexico region. Previously, Mr. Anderson was a Market Officer for ProLogis' New Jersey markets and he has been with ProLogis in various capacities since August 1994. Prior to joining ProLogis, Mr. Anderson was with Security Capital, previously ProLogis' largest shareholder, as a member of its Management Development Program.

Bert Angel 47 Senior Vice President of ProLogis since December 2003, where he oversees the Global Solutions Group in Europe. Mr. Angel has been with ProLogis in various capacities since May 1998. Prior to joining ProLogis, Mr. Angel was the International Marketing and Sales Director for the Port of Rotterdam, one of the largest ports in the world.

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Gregory J. Arnold 49 Senior Vice President of ProLogis since December 2001, where he oversees the Global Solutions Group in North America. Mr. Arnold has been with ProLogis in various capacities since May 1994. Prior to joining ProLogis, Mr. Arnold was an Equity Vice President with LaSalle Partners (now Jones Lang LaSalle), a corporate real estate advisory firm.

Patrick J. Boot 40 Senior Vice President of ProLogis since January 2003, where he has responsibility for real estate research in Asia and has certain responsibilities for ProLogis' China operations. Mr. Boot was responsible for establishing ProLogis' office in Shanghai, China. Prior to joining ProLogis, Mr. Boot was Executive Vice President and Executive Director of Property Investment Advisors Indonesia/ P.T. Sanggraha Daksamitra, a real estate development and leasing company in Indonesia.

Eric D. Brown 44 Senior Vice President of ProLogis since January 2004, where he has capital management responsibilities for the Central/ Mexico region. Mr. Brown has been with ProLogis in capacities since May 1994. Prior to joining ProLogis, Mr. Brown was a Partner and Vice President of Crow Barshop Properties, Inc., an industrial real estate management and leasing company in San Antonio, Texas.

Ken R. Hall 54 Senior Vice President of ProLogis since December 2002, where he oversees the Global Development Group in Europe. Mr. Hall has been with ProLogis or an investee of ProLogis in various capacities since July 1998. Prior thereto, Mr. Hall was a Managing Director of Birse Construction, a development company in the United Kingdom.

Larry H. Harmsen 44 Senior Vice President of ProLogis since December 2001, where he has capital deployment responsibilities for the Pacific region. Mr. Harmsen has been with ProLogis in various capacities since February 1995. Prior to joining ProLogis, Mr. Harmsen was a Vice President and General Partner with Lincoln Property Company, a diversified national real estate operating company.

M. Gordon Keiser, Jr. 60 Senior Vice President of ProLogis since October 1995 and Treasurer of ProLogis since December 1998, where he is responsible for relationships with ProLogis' lenders. Mr. Keiser has been with ProLogis in various capacities since October 1995. Prior to joining ProLogis, Mr. Keiser was Senior Vice President of JMB Realty Corporation with responsibilities for corporate finance and capital markets financing.

Douglas A. Kiersey, Jr. 44 Senior Vice President of ProLogis since December 2001, where he has capital deployment responsibilities for the Mid-West region. Mr. Kiersey has been with ProLogis in various capacities since May 1994. Prior to joining ProLogis, Mr. Kiersey was a member of the Industrial/ Technology Group at Cushman & Wakefield of Oregon, Inc., a real estate brokerage and services company.

W. Scott Lamson 42 Senior Vice President of ProLogis since February 2003, where he has capital management responsibilities for the Pacific region. Mr. Lamson has been with ProLogis in various capacities since June 1995. Prior to joining ProLogis, Mr. Lamson was a Vice President with Commercial Property Services, a commercial real estate company with responsibilities in the San Francisco market.

Brian N. Marsh 40 Senior Vice President of ProLogis since January 2004, where he has capital management responsibilities for the Mid-West region. Mr. Marsh has been with ProLogis in various capacities since January 1995. Prior to joining ProLogis, Mr. Marsh was an Associate with The Pizzuti Companies, an industrial real estate company in Columbus, Ohio.

Debra A. McRight 45 Senior Vice President of ProLogis since December 1999, where she is responsible for client services and property management operations in North America. Ms. McRight has been with ProLogis in various capacities since September 1995. Prior to joining ProLogis, Ms. McRight was with Paragon Group, Inc., a full service real estate company, where she was responsible for property management operations in St. Louis, Missouri.

Ming Z. Mei 32 Senior Vice President of ProLogis since December 2004, where he is responsible for capital management and development activities in China. Previously, Mr. Mei was First Vice President of ProLogis with similar responsibilities. Prior to joining ProLogis in March 2003, Mr. Mei was Director of Finance and Business Development for the Asia Pacific Region of Owens Corning, a global building materials manufacturing company.

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Richard H. Strader 45 Senior Vice President of ProLogis since March 2004, where he has capital deployment responsibilities for the Southeast region. Mr. Strader was a Vice President and Market Officer for ProLogis from June 1994 to February 1999. Prior to re-joining ProLogis in 2004, Mr. Strader was Co-Managing Partner with Craig Davis Properties, a commercial real estate company in North Carolina.

Charles E. Sullivan 47 Senior Vice President of ProLogis since December 2001, where he has capital management responsibilities for the Southeast and Northeast regions. Mr. Sullivan has been with ProLogis in various capacities since October 1994. Prior to joining ProLogis, Mr. Sullivan was an Industrial Broker with Cushman & Wakefield of Florida, a real estate brokerage and services company.

Neville D. E. Teagarden 41 Senior Vice President and Chief Information Officer of ProLogis since September 2003, where he is responsible for development and implementation of ProLogis' global business technology systems. Prior to joining ProLogis, Mr. Teagarden was the Chief Information Officer of Navigant International, a provider of travel management services.

Peter R. S. Wittendorp 39 Senior Vice President of ProLogis since December 2003 where he has Global Capital and Fund Management responsibilities in Europe. Mr. Wittendorp has been with ProLogis since September 2001. Prior to joining ProLogis, Mr. Wittendorp was an independent real estate consultant and he also served as Coordinating Fund Manager and Executive Vice President of the real estate investment group of ABP Investments.

Environmental Matters

Under various federal, state and local laws, ordinances and regulations, a current or previous owner, developer or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, under or in its property. The costs of removal or remediation of such substances could be substantial. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such hazardous substances. The presence of such substances may adversely affect the owner's ability to sell such real estate or to borrow funds by using such real estate as collateral. ProLogis has not been notified by any governmental authority of any non-compliance, liability or other claim in connection with any of the properties owned (directly or through investments in unconsolidated entities), or being acquired, as of December 31, 2004, and ProLogis is not aware of any environmental condition with respect to any of its properties that is likely to have a material adverse effect on ProLogis' business, financial condition or results of operations. ProLogis or the predecessor owners have subjected each of its properties to an environmental assessment (which may not involve invasive procedures such as soil sampling or ground water analysis) by independent consultants. While some of these assessments have led to further investigation and sampling, none of these environmental assessments have revealed, nor is ProLogis aware of, any environmental liability (including asbestos-related liability) that ProLogis believes would have a material adverse effect on its business, financial condition or results of operations. No assurance can be given, however, that these assessments and investigations have revealed or will reveal all potential environmental liabilities, that no prior owner or operator created any material environmental condition not known to ProLogis or the independent consultants or that future uses or conditions (including, without limitation, customer actions or changes in applicable environmental laws and regulations) will not result in unreimbursed costs relating to environmental liabilities. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Risk Factors.

Insurance Coverage

ProLogis and its unconsolidated investees carry comprehensive insurance coverage. ProLogis determines the type of coverage and the policy specifications and limits based on what it deems to be the risks associated with its ownership of properties and other of its business operations in specific markets. Such coverage includes property, liability, fire, flood, earthquake, environmental, terrorism, extended coverage and rental loss. ProLogis believes that its insurance coverage contains policy specifications and insured limits that are customary for similar properties, business activities and markets and ProLogis believes its properties and the properties of its unconsolidated investees are adequately insured. However, an uninsured loss could result in

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loss of capital investment and anticipated profits. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Factors.

ITEM 2. Properties**Industrial Distribution Properties**

ProLogis has directly invested in real estate assets that are primarily generic industrial distribution properties. Due to the costs associated with retrofitting service center space for new customers, ProLogis has acquired properties containing service center space on a very limited basis. Generally, service center space has been acquired as part of portfolio acquisitions in which the majority of the properties being acquired were generic industrial distribution properties. In Japan, ProLogis' distribution properties will generally be multi-level centers, which is common in Japan due to the high cost and limited availability of land. ProLogis' properties are typically used for storage, packaging, assembly, distribution and light manufacturing of consumer and industrial products. Based on the square footage of operating properties directly owned by ProLogis at December 31, 2004, 86% of ProLogis' properties are used for bulk distribution with the remaining properties used for light manufacturing and assembly (11%) and for other purposes, primarily service centers (3%).

Geographic Distribution

ProLogis has direct ownership of 1,286 distribution properties (operating and under development) in North America, Europe and Asia at December 31, 2004. In North America, properties that are owned directly by ProLogis are located in 39 markets in 22 states and the District of Columbia in the United States and in four markets in Mexico. In Europe, the properties that are owned directly by ProLogis are located in 17 markets in nine countries. In Asia, the properties that are owned directly by ProLogis are located in Japan (Tokyo and Osaka), in Shanghai, China and in Singapore.

ProLogis defines its markets based on the concentration of properties in a specific area. A market, as defined by ProLogis, can be a metropolitan area, a city, a subsection of a metropolitan area, a subsection of a city or a region of a state or country. Accordingly, the actual location of each market may not be easily identifiable by the name given to the market by ProLogis. Such markets are identified below along with the major metropolitan areas or cities located in that market to assist in understanding the information presented in the tables that follow in Item 2.

United States:

Northern Ohio	Akron, Bellevue, Fremont and Green
I-81 Corridor, Pennsylvania	Allentown, Bethlehem, Harrisburg
Central New Jersey	Cranbury, Edison, Trenton
I-95 Corridor, New Jersey	Newark and Secaucus
Los Angeles/ Orange County, California	Los Angeles metropolitan area, Orange County, San Bernardino County and Riverside County

Europe:

France:	
Central	Orleans, Paris, Vatry
East	Metz
North	Lille, Le Havre
South	Lyon, Marseille

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Germany:	
North	Hamburg, Hanover
Rhine/ Main	Frankfurt
Rhine/ Ruhr	Cologne, Dortmund, Dusseldorf
South	Munich
Netherlands:	
South	Haaften, Tilburg, Veghel, Venlo
Poland:	
Central	Piotrkow
South	Bedzin
West	Poznan
United Kingdom:	
East Midlands	Bedfordshire, Coalville, Corby, Daventry, Leicester, Northampton
London and Southeast	London, Hemel Hempstead, Thurrock
North	Leeds, Wakefield, Crewe
West Midlands	Banbury, Birmingham, Coventry, Rugby

The table below illustrates the geographic distribution of ProLogis' portfolio of directly owned operating properties and properties under development. The table excludes land held for future development. The table includes properties owned by ProLogis and its consolidated subsidiaries and partnerships, which may not be 100% owned by ProLogis (see Real Estate Partnerships). The table does not include properties that are owned by the property funds or ProLogis other unconsolidated investees which are discussed under Unconsolidated Investees.

	December 31,			
	2004		2003	
	Number of Properties	Percentage of Assets Based on Cost(1)	Number of Properties	Percentage of Assets Based on Cost(1)
North American Markets(2)(3):				
United States:				
Atlanta, Georgia	81	4.79%	80	4.89%
Austin, Texas	27	1.12	27	1.24
Central New Jersey(4)	18	1.66		
Charlotte, North Carolina	30	1.94	33	2.58
Chattanooga, Tennessee	5	0.28	5	0.29
Chicago, Illinois	64	5.88	61	6.26
Cincinnati, Ohio	43	2.39	42	2.19
Columbus, Ohio	28	2.68	32	3.38
Dallas/ Ft. Worth, Texas	120	7.10	125	8.09
Denver, Colorado	25	1.47	25	1.46
El Paso, Texas	16	1.02	18	1.34
Ft. Lauderdale/ Miami, Florida	12	0.87	14	1.19

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Houston, Texas	91	4.17	91	4.58
I-81 Corridor, Pennsylvania	11	2.49	3	0.87
I-95 Corridor, New Jersey(3)	10	1.35	26	2.50
Indianapolis, Indiana	43	2.59	43	2.45
Kansas City, Kansas/ Missouri	29	1.06	29	1.15

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	December 31,			
	2004	Percentage of Assets Based on Cost(1)	2003	Percentage of Assets Based on Cost(1)
	Number of Properties		Number of Properties	
Las Vegas, Nevada	18	1.72	17	1.72
Los Angeles/ Orange County, California(2)	3	1.24	2	0.70
Louisville, Kentucky	8	0.81	7	0.66
Memphis, Tennessee	48	3.50	47	3.48
Nashville, Tennessee	38	1.72	41	2.06
Northern Ohio	1	0.02	1	0.02
Oklahoma City, Oklahoma	6	0.20	6	0.22
Orlando, Florida	21	1.27	19	1.25
Phoenix, Arizona	29	1.14	30	1.25
Portland, Oregon	21	0.89	20	0.88
Reno, Nevada	23	1.61	23	1.77
Salt Lake City, Utah	7	0.77	7	0.84
San Antonio, Texas	51	1.96	53	2.29
San Francisco (Central Valley), California(4)	14	1.84		
San Francisco (East Bay), California(4)	40	2.03	54	4.23
San Francisco (South Bay), California	71	3.88	71	4.25
Seattle, Washington	14	0.96	14	1.05
St. Louis, Missouri	13	0.65	13	0.71
Tampa, Florida	60	2.50	61	2.54
Tulsa, Oklahoma	9	0.22	9	0.23
Washington D.C./ Baltimore, Maryland	38	2.66	38	2.92
Other(5)	1	0.07	2	0.24
Mexico:				
Juarez	11	0.61	12	0.67
Monterrey	8	0.54	8	0.59
Reynosa	14	1.10	12	0.77
Tijuana	3	0.21	3	0.25
 Subtotal North America	 1,223	 76.98	 1,224	 80.05
European Markets(6):				
Czech Republic:				
Prague	2	0.26		
France:				
Central	3	0.74	3	0.58
East	1	0.13	1	0.23

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North	1	0.26	1	0.26
South	4	0.93	4	0.77
Germany:				
Rhine/ Main	1	0.38	2	0.58
Rhine/ Ruhr	1	0.22	2	0.49
South	3	0.34	2	0.30

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	December 31,			
	2004		2003	
	Number of Properties	Percentage of Assets Based on Cost(1)	Number of Properties	Percentage of Assets Based on Cost(1)
Hungary:				
Budapest	1	0.29	2	0.24
Italy:				
Milan	3	0.71	1	0.27
Netherlands:				
South			2	0.87
Poland:				
Central			1	0.29
South	3	0.43	1	0.06
Warsaw	3	0.63	2	0.33
West			2	0.13
Spain:				
Madrid	3	0.84	2	0.64
Sweden:				
Stockholm	2	0.73		
United Kingdom:				