PROLOGIS TRUST
Form 10-K
March 27, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2002.

OR

o

**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 D Cumulative Redeemable Preferred Shares of Beneficial Interest, par value $0.01 per share	New York Stock Exchange
Series E Cumulative Redeemable Preferred Shares of Beneficial Interest, par value $0.01 per share	New York Stock Exchange
Preferred Share Purchase Rights	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 þ No o

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 þ No o

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 þ No o

Based on the closing price of the registrant s shares on June 28, 2002, the aggregate market value of the voting common equity held by non-affiliates of the registrant was $4,154,572,578.

At March 24, 2003, there were outstanding approximately 178,630,570 common shares of beneficial interest of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

None

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PART I

ITEM 1. Business

ProLogis

ProLogis, formerly ProLogis Trust, (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 increase the overall return on equity 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. The ProLogis Operating System® is made up of the Market Services Group, the Global Services Group, the Global Development Group and the ProLogis Solutions Group. 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 the largest global users of distribution properties, its targeted customer base.

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, its European headquarters are located in Luxembourg, its European customer service headquarters are located in Amsterdam, Netherlands and its Asian headquarters are located in Tokyo, Japan.

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. 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. ProLogis website address is www.prologis.com. 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.

Business Strategy

In response to what was perceived to be a highly fragmented industrial distribution real estate industry, ProLogis was formed in 1991 with the primary objective of creating an operating company in the United States that would differentiate itself from its competition through its ability to meet a corporate customer s distribution property requirements on a national, regional and local basis with the added benefit of providing consistent levels of service throughout the country. ProLogis was able to take advantage of unique market conditions in its early years that allowed it to build an asset base of industrial distribution properties in the United States, in many cases at prices below replacement cost. ProLogis also began acquiring a land inventory in key distribution markets that could be developed into industrial distribution properties. ProLogis funded its initial portfolio and the formation of its national operating system primarily with direct public debt and public equity capital. ProLogis common shares of beneficial interest, par value $0.01 per share (Common Shares) were listed on the New York Stock Exchange (NYSE) in March 1994. All of ProLogis acquired and developed distribution properties were integrated into one operating segment the property operations segment as ProLogis intent was to hold these investments on a long-term basis while generating rental income.

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An integral part of ProLogis customer service focus is having a portfolio that meets the distribution space needs of its existing customers and also the needs of targeted national and international companies. As these companies expanded and managed their businesses for greater profitability, they also expanded and reconfigured their distribution networks, including expansion of their networks outside of the United States. In order to meet the growing distribution space needs of these companies, ProLogis expanded its operations to Mexico and Europe in 1997 and to Japan in 2001.

In 1995, ProLogis business expanded to include the corporate distribution facilities services operating segment (CDFS business) to utilize ProLogis existing development capabilities to develop properties for sale to third parties, in addition to ProLogis existing development activities that focused only on the development of properties for long-term investment. The CDFS business was concentrated in North America until 1998 when these activities were added as a complement to ProLogis property operations segment activities in Europe. With the acquisition of an established development business in the United Kingdom in August 1998, ProLogis had access to strategic land positions in a country in which ProLogis previously had limited investments and where significant barriers for initial start-up activities existed. With holdings in both the United Kingdom and Continental Europe, ProLogis was positioned to be a single-source pan-European provider of distribution space to global users.

After 1995, ProLogis focused on creating a critical mass of operating properties in key distribution markets in the United States, in addition to growing its CDFS business activities. To this end, ProLogis merged with a publicly traded REIT in March 1999, adding 32.2 million square feet of distribution properties in the United States to ProLogis property operations segment. And, to enhance its presence in Europe, ProLogis acquired 5.2 million square feet of distribution properties, primarily in Paris, through its acquisition of a real estate operating company in December 1998.

ProLogis, as a REIT, must distribute rather than reinvest substantial amounts of its internally generated capital. Consequently, ProLogis utilized the public debt and equity capital markets to build its portfolio and operating system. By early 1999, the public equity capital markets were an increasingly costly method of raising capital. To secure private equity capital, ProLogis changed the primary focus of its overall development activities from the development of distribution properties to hold in the property operations segment on a long-term basis to the development of distribution properties in the CDFS business segment that, upon completion, are generally contributed to property funds formed by ProLogis. Accordingly, the primary focus of the CDFS business segment became that of developing properties to be contributed to property funds rather than properties that are sold to third parties. As a REIT, ProLogis can dispose of its properties under certain circumstances, therefore, ProLogis taxable REIT subsidiaries develop properties that ProLogis intends to sell to third parties. Properties that ProLogis intends to contribute to the property funds are developed directly by the REIT or one of its qualified REIT subsidiaries. Property funds are business partnerships between ProLogis and private investors, primarily institutional capital sources, with the private investors having equal or majority ownership interests in each property fund. The property funds acquire distribution properties, primarily from ProLogis with the intent to hold these properties as long-term investments. ProLogis acts as manager of the property fund and the individual properties that each fund owns. ProLogis intends to hold each of its ownership interests in the property funds as long-term investments.

The property fund strategy: (i) allows ProLogis to realize, for financial reporting purposes, a portion of the development profits attendant to its CDFS business activities by contributing its developed properties to a property fund; (ii) provides a source of private capital to ProLogis; and (iii) allows ProLogis, as the manager of the property fund, to maintain its market presence and customer relationships that are the key drivers of its operating system. ProLogis realizes a portion of the development profits from the properties contributed to property funds to the extent of the third party investment in the property fund acquiring the property. The proceeds received by ProLogis from the contribution of properties to the property funds are recycled into ProLogis CDFS business segment thus, providing a private funding source for its future development activities and continued growth. To supplement the private equity investments in each property fund, the property funds obtain secured debt financing using their properties as security such that the leverage ratios in the property funds range from 30 to 75%. Approximately $3.4 billion of debt and private equity capital has been raised since the formation of ProLogis first property fund in August 1999. ProLogis has since created seven additional property funds that primarily acquire properties that have been developed by ProLogis. Of the eight property funds, six own properties in North America, including one property fund that owns properties in both the United States and Mexico, one property fund owns properties in Europe and one property fund owns a property in Japan. As a result of this shift in its business strategy, ProLogis total income in the CDFS business segment has grown from $20.5 million in 1998 to $156.9 million in 2002. Fees generated from property management and other services provided to the property funds by ProLogis in its role as manager of each of the funds were $34.5 million in 2002. These fees are included as part of the total income of the property operations segment, not the CDFS business segment.

In 1997 and 1998, ProLogis acquired an international temperature-controlled distribution and logistics network. After four years of investing in this operating segment, ProLogis decided to reduce the level of its investment in favor of maintaining its focus on its core operating segments property operations and the CDFS business. Since June 2001, ProLogis investees in this operating segment have disposed of over 250 million cubic feet of operating facilities in the United States and Europe. ProLogis has investments in only one temperature-controlled distribution company as of December 31, 2002. Substantially all of this investee s operations are in France and the United Kingdom. The operating assets in the United Kingdom were classified as held for sale by ProLogis investee in December 2002.

2002 Financial Results

ProLogis net earnings attributable to Common Shares were $216.2 million in 2002 and $90.8 million in 2001. ProLogis temperature-controlled distribution operations segment was the primary source of the increase in net earnings in 2002 over 2001. This operating segment s share of ProLogis earnings from operations was income of $7.1 million in 2002 as compared to a loss of $111.5 million in 2001. The 2001 loss was primarily attributable to the recognition of impairment charges and net losses related to the disposition of certain operating assets, of which ProLogis proportionate share, recognized under the equity method, was $97.9 million ($88.4 million and $5.8 million of impairment charges related to operating assets and technology investments, respectively, and net losses of $3.7 million). This operating segment recognized additional impairment charges and net gains related to the disposition of certain of its operating assets in 2002 ($42.9 million of impairment charges and net gains of $1.5 million) and also experienced improved operating performance in 2002. The earnings from operations of ProLogis two primary operating segments were relatively unchanged from 2001 to 2002. See further discussion of ProLogis operating segments in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations and Note 10 to ProLogis Consolidated Financial Statements in Item 8.

ProLogis believes that the weaknesses in the United States economy in 2002 negatively impacted its property operations segment s results, primarily impacting ProLogis occupancy levels (overall occupancy declined from 2001 by 185 basis points) and its rental rate growth on new and renewed leases of previously leased space, which was 2.0% in 2002 as compared to 14.6% in 2001. See Property Operating Segments Property Operations Segment Operations. In late 2002, ProLogis observed a slowing in its European customers decision-making processes with respect to changes in or reconfigurations of their distribution networks. ProLogis believes this trend was primarily the result of geopolitical concerns and the uncertainties surrounding the threat of war that existed throughout the fourth quarter of 2002 and into 2003. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Property Operations Segment and CDFS Business Segment.

ProLogis considers funds from operations to be a useful supplemental measure of comparative period operating performance. Funds from operations attributable to Common Shares were $436.0 million in 2002 and $374.4 million in 2001. See the definition and calculation of funds from operations at Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Funds from Operations. ProLogis cash flow from operating activities for 2002 was $377.2 million as compared to $343.3 million for 2001. ProLogis distributed $1.42 per Common Share in 2002, as compared to the 2001 distribution level of $1.38 per Common Share. ProLogis Board of Trustees (the Board) set the distribution level for 2003 at $1.44 per Common Share, a 1.4% increase over 2002. See further information on ProLogis Common Share distributions in Item 5. Market for the Registrant s Common Equity and Related

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Stockholder Matters Dividends and Distributions and Note 8 to ProLogis Consolidated Financial Statements in Item 8.

ProLogis Operating Segments

ProLogis business is organized into two primary operating segments: property operations and the CDFS business. During 2001 and 2002, the temperature-controlled distribution companies, in which ProLogis had invested, disposed of significant portions of their operating assets.

Property Operations Segment

Investments

The property operations segment represents the long-term ownership, management and leasing of distribution properties. ProLogis property operations segment at December 31, 2002 consisted of 1,674 operating properties aggregating 210.6 million square feet in North America (the United States and Mexico), 11 countries in Europe and in Japan (including assets owned by the property funds that are presented under the equity method in ProLogis Consolidated Financial Statements). Of the total operating properties, ProLogis directly owned 1,230 operating properties aggregating 128.0 million square feet. ProLogis ownership interest in the eight property funds ranges from 16.1% to 50%. ProLogis investment strategy in the property operations segment has focused primarily on generic industrial distribution properties in key distribution markets. ProLogis properties generally have a low percentage of office finish (generally less than 10%) such that they are easily adaptable for both distribution and light manufacturing or assembly uses.

Certain operating properties developed by ProLogis in the CDFS business segment with the intent to contribute the property to a property fund or sell the property to a third party and properties that have been acquired by ProLogis with the intent to contribute the property to a property fund are included in the property operations segment for periods of time prior to their contribution or sale. The profits from the disposition of these properties will be included in the CDFS business segment income as they have been developed or acquired in that segment. These properties are reported as part of the property operations segment for the period from completion of development or from the acquisition date through the date of disposition (through either a property fund contribution or a third party sale). At December 31, 2002, there were 88 properties totaling 15.3 million square feet at an aggregate investment of $663.0 million that are reflected in the property operations segment due to the following circumstances:

When properties are not immediately contributed or sold after the completion of development, they are included in the property operations segment until the date of contribution to a property fund, along with any earnings or losses generated during that period. However, upon contribution, the resulting gain or loss is included in the income of the CDFS business segment.

When properties are acquired by ProLogis with plans for their rehabilitation and/or repositioning prior to their contribution to a property fund, they are included in the property operations segment while the rehabilitation and/or repositioning activities are performed, along with any earnings or losses generated during that period. However, upon contribution, the resulting gain or loss is included in the income of the CDFS business segment.

ProLogis may acquire a property to complement the portfolio of properties that are intended for contribution to a property fund to allow the overall contribution portfolio to meet the geographic, size, and customer base requirements of the private investor. Additionally, ProLogis may acquire properties as an interim step prior to the ultimate acquisition of that property by a property fund if ProLogis direct acquisition of the property from the third party facilitates the transfer or is more efficient. These properties will be included in the property operations segment until the date of contribution along with any earnings or losses generated during that period. However, upon contribution, the resulting gain or loss is included in the income of the CDFS business segment.

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Property operations segment investment activities in 2002 included the following:

In 2002, ProLogis acquired 19 properties aggregating 3.9 million square feet at a total acquisition cost of $137.4 million with the intent to include these properties in the property operations segment for long-term investment rather than to contribute the properties to property funds.

In 2002, ProLogis generated total proceeds of $63.6 million from the disposition of 23 properties aggregating 2.0 million square feet that were long-term investments in the property operations segment.

ProLogis North American Properties Fund V, formed in 2002, acquired 57 properties aggregating 12.0 million square feet from ProLogis. ProLogis other property funds in the United States maintained their existing portfolio sizes in 2002 except that ProLogis California acquired two properties from ProLogis and disposed of two properties and a land parcel and ProLogis earned a fee for expanding one of the properties in ProLogis North American Properties Fund I.

ProLogis European Properties Fund acquired 53 properties aggregating 12.6 million square feet and disposed of an 18,000 square foot property. Of the properties acquired in 2002, 30 properties aggregating 7.0 million square feet were acquired from ProLogis (including five properties aggregating 1.2 million square feet that were acquired from Kingspark S.A. during the first six months of 2002 when this investment was presented under the equity method by ProLogis; see CDFS Business Segment Investments).

In Japan, ProLogis first completed development project was acquired by a property fund that was formed in 2002.

See Item 2. Properties Properties , Item 2. Properties Unconsolidated Investees Property Operations and Notes 4 and 10 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. Also, ProLogis proportionate share of the earnings of the property funds and the fee income that ProLogis receives for managing the properties owned by the property funds are included in the earnings from operations of the property operations segment. In addition to property and asset management fees, ProLogis also earns fees for performing other services on behalf of the property funds, including, but not limited to, development, leasing and acquisition activities. The earnings or losses generated by properties that are included in the property operations segment prior to their contribution or, with respect to developed properties, prior to their sale, are also included in the total income of the property operations segment s income during the period prior to contribution or sale. The resulting gain or loss from the contribution or sale of the property is included in the total income of the CDFS business segment. Once the property is acquired by a property fund, the earnings or losses of the property are included in the net earnings of the property fund. ProLogis recognizes its proportionate share of the net earnings of the property fund under the equity method. These amounts and the fees that ProLogis earns from the property funds are included in the total income of the property operations segment.

In 2002, 2001 and 2000, the property operations segment s share of ProLogis earnings from operations were $477.6 million, $477.5 million and $493.9 million, respectively. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Property Operations and Note 10 to ProLogis Consolidated Financial Statements in Item 8.

Operational information about this operating segment for 2002 includes the following:

ProLogis stabilized operating portfolio of 205.8 million square feet (including properties owned by the property funds) was 91.2% leased and 89.5% occupied at December 31, 2002. ProLogis total operating portfolio of 210.6 million square feet (including properties owned by the property funds) was 89.6% leased and 87.9% occupied at December 31, 2002. ProLogis defines its stabilized properties as those properties where the capital improvements, repositioning efforts, new management and new marketing programs for acquisitions, or development and marketing programs in the case of newly developed

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properties, have been in effect for a sufficient period of time, generally 12 months, to achieve stabilized occupancy, typically 93%. Overall occupancy levels decreased in 2002 from prior periods. ProLogis leased occupancy for the stabilized portfolio at December 31, 2002 was approximately 185 basis points lower than the 2001 level.

ProLogis leased 55.1 million square feet of distribution space in 1,324 leasing transactions for its properties and the properties owned by the property funds. Rental rates increased by 2.0% for 2002 transactions involving previously leased space. ProLogis weighted average customer retention rate was 64.7% for all properties in 2002. In 2001 for leasing transactions in all properties, ProLogis rental rate growth on leases of previously leased space was 14.6% and its weighted average retention rate was 63.4%.

ProLogis same store portfolio of operating properties (properties owned by ProLogis and the property funds that were operating throughout both 2002 and 2001) aggregated 159.0 million square feet. Rental revenues, excluding termination and renegotiation fees, less net rental expenses of the same store portfolio decreased by 0.9% in 2002 from 2001. For the same store portfolio applicable to 2001, rental revenues less net rental expenses grew by 1.4% in 2001 over 2000.

ProLogis earned termination and renegotiation fees of $14.6 million related to leases in its directly owned properties in 2002. Such fees in 2001 aggregated $3.1 million. In certain leasing situations, ProLogis finds it advantageous to have its customers exercise termination clauses in their leases, particularly if the customer is experiencing financial difficulties, but also when ProLogis believes that it can re-lease the space on more advantageous terms.

ProLogis earned $34.5 million in various fees from the property funds, primarily from property management and asset management services provided to the property funds.

Market Presence

ProLogis has generally invested in distribution markets in North America, Europe and Japan in which ProLogis has identified strong distribution dynamics and supply and demand factors that have previously allowed for higher occupancy levels and increasing rental rates. In making its investment decisions, ProLogis evaluates market conditions that indicate favorable distribution growth prospects including, but not limited to: (i) growth in imports and exports; (ii) long-term cost and quality of labor advantages for domestic and international manufacturers; (iii) proximity to large regional and local population centers with good access to transportation networks; (iv) expansion and contraction needs of distribution space users located in the market; and (v) an historically high ratio of distribution space per capita.

ProLogis assesses its market presence not only in terms of its investments in the market, but also by the extent it has developed relationships with customers in such markets. ProLogis believes it can maintain these relationships by offering operating properties that are functional and cost-effective, complemented by a comprehensive level of customer service. ProLogis believes that by being a significant local owner and developer in a given market it has the ability to increase customer retention because it can meet its customers needs to either expand or contract through its network of distribution properties and land positions that allow ProLogis to relocate a customer within its existing inventory of distribution space or to readily develop a new property for the customer.

At December 31, 2002, the 1,230 properties in the property operations segment that are owned directly by ProLogis are located in 37 markets in the United States, four markets in Mexico and 10 markets in six countries in Europe. ProLogis largest markets (based on investment in directly owned properties) are Atlanta, Chicago, Dallas/ Fort Worth, Houston, Memphis and San Francisco (both South Bay and East Bay markets). See Item 2. Properties Geographic Distribution and Item 2. Properties Properties.

The operating properties owned by the property funds at December 31, 2002 are as follows:

ProLogis California: 79 properties, 13.0 million square feet, all located in the Los Angeles/ Orange County market;

ProLogis North American Properties Fund I: 36 properties, 9.4 million square feet, located in 16 markets in the United States;

ProLogis North American Properties Fund II: 27 properties, 4.5 million square feet, located in 13 markets in the United States;

ProLogis North American Properties Fund III: 34 properties, 4.4 million square feet, located in 15 markets in the United States;

ProLogis North American Properties Fund IV: 17 properties, 3.5 million square feet, located in 10 markets in the United States;

ProLogis North American Properties Fund V: 57 properties, 12.0 million square feet, located in 20 markets in the United States and in three markets in Mexico;

ProLogis European Properties Fund: 193 properties, 35.7 million square feet, located in 25 markets in 11 countries in Europe (including 68 properties, 10.3 million square feet located in Central France, primarily in Paris, France); and

ProLogis Japan Properties Fund: one property, 0.2 million square feet, located in Tokyo, Japan.

See   Item 2. Properties   Unconsolidated Investees   Property Operations.

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 the same distribution space. Many of these entities have substantial resources and experience. Competition for acquisition of existing distribution properties and land, both from institutional capital sources and from other REITs, has been strong over the past several years.

Property Management

ProLogis   business strategy includes a focus on customer service that requires ProLogis to provide responsive, professional and effective property management services at the local level. To enhance its management services, ProLogis   property management group has developed and implemented proprietary operating, recruiting and training systems to achieve consistent levels of performance and professionalism in all markets and to give the proper level of attention to its customers   needs throughout the ProLogis 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 sought to develop a customer base in each market 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, 2002, ProLogis and the property funds had over 3,600 customers occupying 185.1 million square feet of distribution space. Including the customers in properties owned by the property funds, ProLogis   largest customer and its 25 largest customers accounted for 2.2% and 17.5%, respectively, of ProLogis   annualized base rental income as of December 31, 2002. When the customers in the properties owned by the property funds are excluded, ProLogis   largest customer and its 25 largest customers accounted for 1.4% and 14.7%, respectively, of ProLogis   annualized base rental income as of December 31, 2002.

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Employees

ProLogis directly employs approximately 700 persons in North America, in eight countries in Europe and in Japan. Of the total, approximately 320 employees are assigned to the property operations segment and ProLogis other employees may provide assistance in this operating segment. ProLogis believes that its relationship with its employees is 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

ProLogis believes that its current level of direct investment in the property operations segment in North America enables it to serve its customers at a high level and increase returns to its shareholders. ProLogis business plan with respect to direct investments in the property operations segment in North America calls for the expansion of its network of operating properties on a limited basis and only as necessary to: (i) address the specific expansion needs of a customer; (ii) enhance its market presence in specific submarkets or (iii) take advantage of opportunities where ProLogis believes it has the ability to achieve favorable returns. ProLogis has no plans to increase its property operations segments in Europe or Japan, except through growth of its property funds.

ProLogis plans to continue with its current business strategy with respect to the growth in assets held by property funds. ProLogis expects to achieve this growth primarily through the property funds acquisition of properties developed or acquired by ProLogis, in addition to the acquisition of properties from third parties. ProLogis expects that the fee income earned from property funds will increase in 2003 over the 2002 levels as the portfolios of operating properties in the property funds increase. Also, depending on capital availability, the number of property funds could increase in 2003.

ProLogis business plans with respect to property fund investments in North America have been made in anticipation of continued poor economic conditions through the end of 2003. In both Europe and Japan, the consolidation and reconfiguration of distribution networks by users of distribution space has been the primary driver in leasing decisions based on market research available to ProLogis and customer feedback to ProLogis. The consolidation trend and the emergence of regional distribution centers have provided, and ProLogis believes could continue to provide, growth opportunities for ProLogis as a single-source provider of state-of-the-art distribution properties. However, ProLogis has observed a slowing in its customers decision making processes that it believes is the result of geopolitical concerns and the uncertainties surrounding the threat of war that was present in the fourth quarter of 2002 and into 2003. ProLogis business plans with respect to investments in property funds in Europe and Japan emphasize growth in key distribution markets, from the development of properties within ProLogis CDFS business segment that will be contributed to property funds and from third party acquisitions directly by the property funds.

ProLogis intends to fund its investment activities in the property operations segment in 2003 with operating cash flow from this operating segment and the proceeds from contributions and sales of properties from this segment (including long-term investment properties and CDFS business segment properties that are included in this segment 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 Segment

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 primary activity is the development of distribution properties that are either contributed to property funds in which ProLogis maintains an ownership interest and acts as manager or sold to unaffiliated customers.

Investments

At December 31, 2002, ProLogis had 37 distribution properties aggregating 9.6 million square feet under development at a total expected cost at completion of $683.0 million. These properties are all being developed with the objective that they will be contributed to a property fund or sold to a third party and are located in the United States ($109.7 million total expected cost or 16% of the total), Mexico ($9.7 million total expected cost or 2% of the total), six countries in Europe ($336.1 million total expected cost or 49% of the total) and Japan ($227.5 million total expected cost or 33% of the total). ProLogis had land positions, including land controlled through contracts, options or letters of intent aggregating 4,637 acres with the capacity for developing approximately 80.0 million square feet of distribution properties at December 31, 2002, of which 2,466 acres with the capacity for developing approximately 44.2 million square feet of distribution properties are owned. Land positions in North America total 2,534 acres with the capacity for developing approximately 43.2 million square feet of distribution properties and land positions in ten countries in Europe total 2,103 acres with the capacity for developing approximately 36.8 million square feet of distribution properties. At December 31, 2002, ProLogis had begun development on all of its land holdings in Japan.

ProLogis U.K. Holdings S.A., formerly Kingspark Holding S.A., (collectively with its subsidiaries Kingspark S.A.) performs ProLogis CDFS business activities in the United Kingdom. ProLogis investment in Kingspark S.A. was presented under the equity method through June 30, 2002 but has been consolidated in ProLogis financial statements since July 1, 2002. This change in reporting method coincides with ProLogis acquisition of the voting ownership interests of Kingspark S.A., as previously ProLogis ownership interests were all non-voting. See Notes 2 and 4 to ProLogis Consolidated Financial Statements in Item 8.

CDFS business segment investment activities in 2002 included the following:

Development starts aggregated 14.7 million square feet at a total expected cost at completion of $936.4 million (including 0.9 million square feet at a total expected cost at completion of $104.6 million on which development was begun during the first six months of 2002 by Kingspark S.A.). Development starts in North America aggregated 5.1 million square feet at a total expected cost at completion of $185.2 million, development starts in Europe aggregated 8.1 million square feet at a total expected cost at completion of $523.7 million and development starts in Japan aggregated 1.5 million square feet and a total expected cost at completion of $227.5 million. The economic weaknesses in the United States, consistent demand in Europe and anticipated demand in Japan, ProLogis has been shifting its development activities from the United States in favor of Europe and Japan. Consequently, less than 20% of the development starts (based on total expected cost at completion) in 2002 were in North America.

Development completions aggregated 11.6 million square feet at a total cost of $716.4 million (including 2.1 million square feet at a total cost of $232.3 million that were completed during the first six months of 2002 by Kingspark S.A.). Development completions in North America aggregated 2.8 million square feet at a total cost of $120.5 million, development completions in Europe aggregated 8.6 million square feet at a total cost of $540.9 million and ProLogis one development completion in Japan was of a 0.2 million square foot property at a total cost of $55.0 million.

In 2002, ProLogis acquired 36 operating properties aggregating 6.9 million square feet at a total acquisition cost of $214.0 million with the intent to contribute the property to a property fund (including properties where rehabilitation and/or repositioning efforts are needed prior to contribution or sale). Even though these properties are reported in the property operations segment prior to their contribution, any gain or loss realized when ProLogis contributes these properties will be included in the CDFS business segment s total income. See Operations.

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ProLogis contributed to property funds or sold to third parties 80 properties aggregating 18.1 million square feet that were developed by ProLogis with the intent to contribute or sell the property or acquired by ProLogis with the intent to contribute the property to a property fund, including properties that have been or are going to be rehabilitated and/or repositioned. These transactions and the dispositions of land parcels that no longer fit in ProLogis development plans generated net proceeds to ProLogis of $1.12 billion (including transactions involving five properties aggregating 1.2 million square feet and land parcels that generated aggregate net proceeds of $146.4 million during the first six months of 2002 of Kingspark S.A.).

Land acquisitions aggregated 892 acres: 295 acres in the United States, 64 acres in Mexico, 517 acres in Europe (including 79 acres acquired during the first six months of 2002 by Kingspark S.A.) and 16 acres in Japan. This land can be used for the development of approximately 14.8 million square feet of distribution properties.

Operations

The total income of the CDFS business segment consists primarily of the gains recognized from the contributions and sales of developed properties and from the contributions of operating properties that were acquired with the intent to contribute the property to a property fund. ProLogis utilizes its development and leasing expertise to rehabilitate and/or reposition certain of the properties that it acquires such that the subsequent contribution or sale of the property will generate a profit to ProLogis. ProLogis also earns fees from customers for development activities performed on their behalf and realizes profits from sales of land parcels when ProLogis development plans no longer include these parcels.

At December 31, 2002, ProLogis property operations segment included 88 properties that were not developed or acquired as long-term investments. These properties aggregated 15.3 million square feet of distribution space at a total investment of $663.0 million. See (Property Operations Investments). Earnings or losses of these properties generated prior to their contribution or sale are included in the earnings from operations of the property operations segment. Once the properties are contributed to property funds, ProLogis recognizes its proportionate share of the earnings of the property funds under the equity method, which, along with the fees earned from the property funds, is included in the earnings from operations of the property operations segment. See Property Operations Segment Operations.

In 2002, 2001 and 2000, the CDFS business segment s earnings from operations were $152.3 million, $151.7 million and $114.5 million, respectively. In 2002, 36% of the earnings from operations of this operating segment were generated in North America, 59% were generated in Europe and 5% were generated in Japan. In 2001 and 2000, 43% and 48%, respectively, of the earnings from operations of this operating segment were generated in North America. For these years, Europe generated the remaining portions of the CDFS business segment s earnings from operations. See Note 10 to ProLogis Consolidated Financial Statements in Item 8.

The results of operations of Kingspark S.A., which performs ProLogis CDFS business activities in the United Kingdom, were recognized by ProLogis under the equity method and included in the CDFS business segment through June 30, 2002. The results of operations of Kingspark S.A. have been consolidated in ProLogis financial statements since July 1, 2002 and, as applicable, are included in the earnings from operations of the CDFS business segment. See Notes 2 and 4 to ProLogis Consolidated Financial Statements in Item 8.

Operational information about this operating segment for 2002 includes the following:

Contributions and sales of properties generated net gains of $137.1 million (including $14.8 million of net gains that were recognized during the first six months of 2002 by Kingspark S.A.). Of the property contributions and sales, $132.1 million of net gains were generated by developed properties and $5.0 million of net gains were generated by acquired properties.

ProLogis developed 2.4 million square feet of distribution properties on behalf of customers under development management agreements generating $9.6 million of fees, including 1.4 million square feet and fees of $5.5 million recognized during the first six months of 2002 by Kingspark S.A. Other fees and miscellaneous income from the CDFS business segment was $0.5 million, including $16,000 recognized during the first six months of 2002 by Kingspark S.A.

See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations CDFS Business.

Market Presence

ProLogis CDFS business has had development activities in substantially all of ProLogis property operations markets. At December 31, 2002, ProLogis had properties under development in eight markets in the United States, one market in Mexico, 12 markets in six countries in Europe and in Tokyo, Japan. At December 31, 2002, the land positions owned by ProLogis were located in 26 markets in the United States, four markets in Mexico and 17 markets in nine countries in Europe. At December 31, 2002, ProLogis had begun development on all of its land holdings in Japan.

Competition

There are a number of other national, regional and local developers engaged in industrial distribution property development in the North American markets where ProLogis conducts business and ProLogis competes with these developers for land acquisitions and development opportunities. The disposition market in North America is competitive and is driven by the supply of new developments, access to capital and interest rate levels. The key component of ProLogis success in North America will be its ability to develop and lease properties that will generate profits upon contribution or sale and its ability to continue to access private capital that will allow for the acquisition of these developed properties by property funds, such as the six existing property funds in North America.

ProLogis believes that there are no other pan-European real estate operating companies in direct competition with its CDFS business in Europe. However, there are a number of local and regional developers in ProLogis target markets. As in North America, the disposition market in Europe is competitive and driven by the supply of new developments, access to capital and interest rate levels and ProLogis ability to develop and lease properties in Europe that will generate profits upon contribution or sale and its ability to continue to access private capital such that its European property fund can acquire ProLogis developed properties is critical to its success. With respect to its development activities in Europe, ProLogis believes that it has a competitive advantage based upon the strategic locations of its land positions owned or under control in Europe. As the only owner of distribution properties and services provider operating on a global basis, ProLogis believes it has differentiated itself from many of its competitors in Europe.

Market research available to ProLogis has identified a trend in Japan toward larger, more efficient distribution centers due to vertical integration, continued merger activity and the need to reduce costs in the supply chain. ProLogis currently serves customers in other global markets who also have operations in Japan. ProLogis believes that its past experience in serving these international customers, as with its entry into Europe, will provide opportunities for ProLogis to meet these customers distribution space needs in Japan. ProLogis has not currently identified any North American industrial development companies who are in direct competition with its CDFS business in Japan. Further, ProLogis believes that it has an advantage over local industrial development companies in Japan as the result of its experience in the development of industrial properties, its focus on customer relationships and the high quality service that it can provide through the ProLogis Operating System® (see ProLogis Operating System®). ProLogis has properties under development with a total expected cost at completion of $227.5 million, which based on information available to ProLogis, makes ProLogis one of the leading industrial distribution developers in Japan based on portfolio size at December 31, 2002.

Customers

ProLogis utilizes 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 Operating System®. In 2002, approximately 62% of the customers

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that leased distribution space in properties developed or rehabilitated and/or repositioned in the CDFS business segment were repeat customers of ProLogis.

Employees

ProLogis directly employs approximately 700 persons in North America, eight countries in Europe and in Japan. Of the total, approximately 110 employees are assigned directly to the CDFS business segment and ProLogis other employees may also provide assistance in this operating segment. ProLogis believes that its relationship with its employees is good. ProLogis employees are not represented by a collective bargaining agreement.

Seasonal Nature of the Business

The demand for the industrial distribution properties that are developed 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 completions.

Future Plans

ProLogis intends to utilize the capital generated through the contributions or sales of properties, the proceeds from public debt offerings that take advantage of favorable market conditions and, to a lesser extent, the proceeds from sales of its Common Shares under various plans to finance its future CDFS business activities in North America, Europe and Japan. To this end, ProLogis issued $300.0 million of senior unsecured notes in February 2003, representing its first public debt offering since April 1999. The proceeds from this offering were used to repay borrowings on ProLogis revolving lines of credit that had been incurred to fund ProLogis development and acquisition activities.

ProLogis success in this operating segment depends on its ability to develop and lease properties and the availability of private capital that can be used by a property fund to acquire properties that have been developed or acquired in the CDFS business segment. See Competition. ProLogis believes that the 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 provides in the CDFS business segment. Also, a limited supply of state-of-the-art distribution space in Europe and Japan could also provide opportunities within this operating segment. However, for ProLogis to take advantage of these opportunities under its current business strategy, the availability of private capital is critical. ProLogis is committed to offer to contribute to existing property funds substantially all of its stabilized developed properties in North America through December 2003, in Europe through September 2019 and in Japan through June 2006. ProLogis believes that these property funds have available capital, including borrowing capacity, to acquire the properties that ProLogis expects it will be available for contribution in North America and Europe through June 2003 and in Japan through June 2006. ProLogis North American Properties Fund V and ProLogis European Properties Fund do not have capital commitments from third parties at this time such that they can acquire properties from ProLogis after June 2003. However, ProLogis expects that both of these property funds will secure additional capital commitments such they will be able to acquire ProLogis available properties after June 2003. ProLogis Japan Properties Fund has a capital commitment from an institutional investor that is expected to be sufficient to acquire all of the properties that ProLogis expects to be available for contribution through June 2006.

ProLogis North American Properties Fund V s majority owner is a listed property trust in Australia that raises capital in the public market. ProLogis European Properties Fund is seeking additional equity commitments and has had discussions with certain institutional investors, including some investors that are currently owners of the property fund. There can be no assurance that these property funds will obtain a sufficient amount of capital (either debt or equity capital) such that they will be able to acquire the properties that ProLogis expects to have available for contribution after June 2003. And, there can be no assurance that if additional commitments are not received by the property funds, ProLogis will be able to secure other sources of private equity capital such that it can contribute or sale its stabilized development properties in a timely manner to allow ProLogis to continue to generate development profits through the end of the current commitment periods.

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.

Temperature-Controlled Distribution Operations

ProLogis first invested in this operating segment through a temperature-controlled distribution company that operated in the United States. This investment, along with ProLogis investment in a similar company operating in Europe that was made in 1998, were presented under the equity method. In 2001 and 2002, significant portions of these investees operating assets were sold and ProLogis no longer considers the temperature-controlled distribution operations segment to be one of its primary operating segments or a primary line of business. At December 31, 2002, the remaining operating assets in this operating segment were only in Europe, primarily in France and the United Kingdom.

Investments

At December 31, 2002, ProLogis investee in this operating segment, Frigoscandia Holdings S.A., (collectively with its subsidiaries Frigoscandia S.A.) owned or operated 103.6 million cubic feet (62.4 million cubic feet in France and 41.2 million cubic feet in the United Kingdom) of temperature-controlled operating assets, had an investment in a temperature-controlled operating company in Austria and operated a temperature-controlled transportation network in the Netherlands. The operating assets in the United Kingdom were classified as held for sale by Frigoscandia S.A. in December 2002. ProLogis has non-voting ownership interests in Frigoscandia S.A. and a related company, CSI/ Frigo LLC, such that it recognizes in excess of 99% of the earnings or losses of Frigoscandia S.A. under the equity method.

The sale of a significant portion of the United States temperature-controlled distribution operating assets occurred in October 2002. After the sale, $54.4 million of assets that were not sold (four leased facilities and four land parcels) were integrated into ProLogis two primary operating segments and are now presented on a consolidated basis as, concurrent with the sale, ProLogis acquired all voting ownership interests of its United States investee. Previously, ProLogis ownership interests were all non-voting. See Note 4 to ProLogis Consolidated Financial Statements in Item 8.

Operations

Frigoscandia S.A. earns revenues from unaffiliated customers for various services associated with temperature-controlled distribution operations. ProLogis recognizes its proportionate share of the net earnings or losses of Frigoscandia S.A. under the equity method as a component of its total income. Prior to the disposition of all of the United States operations by ProLogis investee in this operating segment, ProLogis also recognized its proportionate share of this investee s net earnings or losses under the equity method.

ProLogis total income from this operating segment, all recognized under the equity method, was income of $7.1 million in 2002, including a net loss of $41.4 million representing ProLogis proportionate share of the net gains recognized upon the sale of significant portions of these entities operating assets and related impairment charges ($42.9 million of impairment charges offset by net gains of $1.5 million). Included in ProLogis total income in 2001, was a net loss from this operating segment of $111.5 million, including a net loss of $97.9 million representing ProLogis proportionate share of the net losses recognized upon the sale of significant portions of these entities operating assets and related impairment charges ($88.4 million and $5.8 million of impairment charges related to operating assets and technology investments, respectively, and net losses of $3.7 million). ProLogis total income in 2000 includes a net loss of $8.3 million from this operating segment. See Item 7. Management s Discussion and Analysis of Results of Operations and Financial Condition Results of Operations Temperature-Controlled Distribution Operations and Notes 4 and 10 to ProLogis Consolidated Financial Statements in Item 8.

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Market Presence

Market presence in the temperature-controlled distribution industry is generally defined by the volume available for storage of frozen and chilled foods in addition to the transportation network in place to serve customers. Frigoscandia S.A. operates a storage network in France and the United Kingdom, has an investment in a temperature-controlled operating company in Austria and has transportation operations in the Netherlands.

Competition

ProLogis believes that the temperature-controlled distribution industry has significant barriers to entry due to its capital-intensive nature, which limits competition. Frigoscandia is one of a few European temperature-controlled distribution companies that have operations in more than one country. Frigoscandia s primary competition in each country is from local smaller warehouse operators.

Customers

In the United Kingdom, Frigoscandia S.A. has approximately 315 customers. Of Frigoscandia S.A. s total revenues in the United Kingdom, approximately 83% were derived from its 15 largest customers and Frigoscandia S.A. s largest customer in the United Kingdom accounted for approximately 23% of its total revenues. In France, Frigoscandia S.A. has approximately 1,600 customers. Of Frigoscandia S.A. s total revenues in France, approximately 71% were derived from its 25 largest customers and Frigoscandia S.A. s largest customer in France accounted for approximately 15% of its total revenues.

Employees

Frigoscandia S.A. employs approximately 1,240 persons in three European countries. Of these employees, approximately 77% participate in collective bargaining agreements. Frigoscandia S.A. believes that its relationship with its employees is good.

Seasonal Nature of the Business

Temperature-controlled distribution operations are seasonal, in that demand for temperature-controlled storage capacity is stronger during the third quarter of the calendar year and is at its lowest level in the first quarter of the calendar year. The seasonal nature of temperature-controlled distribution operations coincides with the lower demand for frozen foods, such as ice cream, during the winter months and the timing of the harvests of various food crops in the third quarter of the year.

Future Plans

The focus in both France and the United Kingdom in 2003 will be on increasing the operating efficiencies and profitability. The operating assets located in the United Kingdom were classified as held for sale in December 2002 indicating that Frigoscandia S.A. intends to dispose of these assets and that it believes that such disposition will occur before the end of 2003.

See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Temperature-Controlled Distribution Operations for a discussion of operating performance of this operating segment and the discussion of factors that could affect the future plans of ProLogis and Frigoscandia S.A. at Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Factors.

ProLogis Operating System®

ProLogis management team is headed by its Chairman and Chief Executive Officer, K. Dane Brooksher and its Vice Chairman and Chief Investment Officer, Irving F. Lyons III. Mr. Brooksher and Mr. Lyons are members of the Board. On March 25, 2003, ProLogis announced that Mr. Brooksher would relinquish his role as Chief Executive Officer of ProLogis on December 31, 2004 and that Mr. Lyons would relinquish his role as

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Vice Chairman and Chief Investment Officer of ProLogis on December 31, 2004. Mr. Brooksher will remain as Chairman of the Board and Mr. Lyons will retain his membership on the Board and will serve as Chairman of the Board s investment committee. The Board has formed a succession committee that has been working with the full Board and ProLogis management group on succession planning and transition issues.

ProLogis investments and operations in each geographical area of the world are overseen by Jeffrey H. Schwartz, President of International Operations and President and Chief Operating Officer Asia, John W. Seiple, Jr., President and Chief Operating Officer North America and Robert J. Watson, President and Chief Operating Officer Europe. Further, in North America, each of ProLogis four regions (Mid-Atlantic, Southeast, Central/ Mexico and Pacific) is led by a senior member of the Market Services Group, who is responsible for capital management in that region and a senior member of the Global Development Group, who is responsible for capital deployment for that region. 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 Japan, the capital management and capital deployment responsibilities are primarily those of the Chief Operating Officer. This structure will continue in Japan until such time as the volume of investments and operations demonstrates the need for additional managers. ProLogis management team is responsible for overseeing the utilization of the ProLogis Operating System®, the cornerstone of ProLogis business strategy, to allow ProLogis to achieve long-term sustainable growth in cash flow and increase the overall 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 integrate four groups of professionals such that ProLogis provides a unique and disciplined approach to serving existing and prospective customers. The ProLogis Operating System® is comprised of the Market Services Group, the Global Services Group, the Global Development Group and the ProLogis Solutions Group. ProLogis believes that it is, and will continue to be, well positioned to leverage its customer relationships to generate additional business opportunities.

Market Services Group

The Market Services Group is responsible for managing and leasing the properties owned by ProLogis and the property funds. The members of the Market Services Group include professionals who are responsible for capital management in the various regions and 41 Market Officers who are primarily responsible for understanding and meeting the needs of existing and prospective customers in their respective markets. 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 these customers. The Market Officers ability to serve customers in the local market is enhanced by their access to both national and international ProLogis resources. The Market Officers do not develop projects or borrow or commit capital. Their focus is strictly on managing the capital invested in their markets, creating and maintaining relationships with customers, potential customers and industrial brokers, leasing ProLogis properties and identifying potential acquisition and development opportunities in their markets.

Global Services Group

The Global Services Group is dedicated to providing service to the largest users of distribution space, a group of companies that ProLogis has identified as its targeted customers. The Global Services Group s primary focus is to position ProLogis as the preferred provider of distribution space to these companies. The professionals in the Global Services Group seek to build long-term relationships with ProLogis customers and provide a single point of contact for multi-location global users of distribution space to simplify and streamline the execution of such customers distribution space plans. An ancillary benefit of ProLogis on-going contact with its customers is the ability to be on the forefront of international and national distribution and logistics trends. The Global Services Group is headquartered in Aurora and Amsterdam and has regional offices in Atlanta, Chicago and New Jersey.

Global Development Group

The Global Development Group focuses substantial research and development efforts on creating industry-leading distribution properties and master-planned distribution parks. Members of the Global Development Group have extensive experience in the development and construction of generic industrial development properties that appeal to a wide variety of customers as well as the development of industrial development properties that meet a particular customer s needs. ProLogis 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.

The Global Development Group includes architects, engineers and construction professionals who oversee the land planning and building design processes, monitor the construction process and monitor the performance of third-party general contractors. This Group s project managers, who operate regionally, supervise each project with further oversight from ProLogis development management team. ProLogis development projects are completed pursuant to uniform standards, procedures and specifications that have been designed to achieve consistent quality in ProLogis developed properties.

ProLogis believes the depth and breadth of experience within the Global Development Group enhances the effectiveness of the Global Services Group and provides the Market Services Group with a distinct competitive advantage in securing development opportunities in their respective markets.

ProLogis Solutions Group

The ProLogis Solutions Group was formed to allow ProLogis to address its customers distribution needs by providing analysis, consulting and material handling equipment. The distribution-related consulting services available to customers by the ProLogis Solutions Group, includes network optimization tools, strategic site selection, business location services (including tax incentive analysis and tax negotiation consulting) and design consulting services. ProLogis believes that the services provided by the ProLogis Solutions Group can strengthen its customer relationships with the added benefit of increasing its cash flows with modest additional capital requirements.

ProLogis Management

ProLogis future success depends upon management s ability to continue to provide strategic and day-to-day management functions of research, investment analysis, acquisition and due diligence, development, marketing, asset management, capital markets, asset disposition, management information systems support, accounting services and legal services. Since its inception in 1991, ProLogis management has demonstrated a strategic vision in determining an operating and investment focus that has provided favorable returns to its shareholders and has positioned ProLogis for long-term growth. Through the ProLogis Operating System®, ProLogis believes it is the first international operating company that has been able to address and service a corporate customer s distribution space requirements on an international, national, regional and local basis.

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 included as an exhibit to this Annual Report on Form 10-K and 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 the 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.

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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.

Trustees

K. Dane Brooksher 64 Mr. Brooksher has served as a Trustee since October 1993. Mr. Brooksher has been Chairman and Chief Executive Officer of ProLogis since March 1999 and he was Co-Chairman and Chief Operating Officer of ProLogis from November 1993 to March 1999 (through September 1997 he was employed by ProLogis former management company). 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 Butler Manufacturing Company, the National Association of Manufacturers, Pactiv Corporation, Insight Inc. (an unconsolidated investee of ProLogis see Note 4 to ProLogis Consolidated Financial Statements in Item 8) and Colorado Forum, a not-for-profit organization and he serves as an Advisory Board Member of the J.L. Kellogg Graduate School of Management of Northwestern University. Mr. Brooksher s term as Trustee expires in 2005.

Irving F. Lyons, III 53 Mr. Lyons has served as a Trustee since March 1996. Mr. Lyons has been Vice Chairman of ProLogis since December 2001 and Chief Investment Officer of ProLogis since March 1997. 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 (through September 1997 he was employed by ProLogis former management company). 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 2003.

Stephen L. Feinberg 58 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 (see Note 7 to ProLogis Consolidated Financial Statements in Item 8), Continental Transmission Corporation, MetaMetrics, Inc., St. John s College, The Santa Fe Institute 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 2004.

George L. Fotiades 49 Mr. Fotiades has served as a Trustee since December 2001 when he was appointed as Trustee prior to his election in May 2002. Mr. Fotiades is President and Chief Executive Officer of Life Sciences Products & Services, a unit of Cardinal Health, Inc., a provider of services supporting the health-care industry. Prior thereto, 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 2003.

Donald P. Jacobs 75 Mr. Jacobs has served as a Trustee since February 1996. Mr. Jacobs has been a faculty member of the J.L. Kellogg Graduate School of Management of Northwestern University since 1957 and he was Dean from 1975 until he retired as Dean in 2001. Mr. Jacobs is currently Dean Emeritus. Mr. Jacobs is a Director of Hartmarx Corporation, Terex Corporation and CDW Computer Centers. Mr. Jacobs was formerly a Director of Commonwealth Edison and its parent company, Unicom and he was formerly 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

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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 2004.

Neelie Kroes 61 Ms. Kroes was appointed as a Trustee in May 2002. Ms. Kroes served as President of Nyenrode University, a private university in the Netherlands, from May 1991 to April 2000. Prior thereto, Ms. Kroes held various logistics-related positions in the Dutch government, including Cabinet Minister of Transportation, Public Works and Telecommunication. Ms. Kroes was an assistant professor for transport areas at Erasmus University in Rotterdam, the Netherlands from May 1965 to August 1971. Ms. Kroes serves on various advisory boards including P&O Nedlloyd, Lucent Technologies B.V. and Nederlands Spoorwegen NV (Dutch Railways). Ms. Kroes term as trustee expires in 2005.

Kenneth N. Stensby 63 Mr. Stensby has served as a Trustee since March 1999. 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 and Corner House. Mr. Stensby s term as Trustee expires in 2005.

J. André Teixeira 50 Mr. Teixeira has served as a Trustee since February 1999. Mr. Teixeira is Vice President, Global Technology Development of Interbrew, a publicly traded brewer headquartered in Belgium. 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 2004.

William D. Zollars 55 Mr. Zollars has served as a Trustee since June 2001 when he was appointed as Trustee prior to his election in May 2002. Mr. Zollars has been Chairman, President and Chief Executive Officer of Yellow 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 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 Butler Manufacturing Co. and Rogers Group, Inc. Mr. Zollars term as Trustee expires in 2003.

Senior Officers

Jeffrey H. Schwartz 43 President of International Operations since March 2003 and President and Chief Operating Officer Asia since March 2002. Mr. Schwartz was President and Chief Executive Officer of Vizional Technologies, Inc. (Vizional Technologies), an unconsolidated investee of ProLogis (see Note 4 to ProLogis Consolidated Financial Statements in Item 8) 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 (through September 1997 he was employed by ProLogis former management company). 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.

John W. Seiple, Jr. 44 President of North America since December 2001 and Chief Operating Officer North America since December 1998. Mr. Seiple has been with ProLogis in varying capacities since October 1993 (through September 1997 he was employed by ProLogis former management company). Mr. Seiple is a Director of Insight Inc. (an unconsolidated investee of ProLogis see Note 4 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.

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Robert J. Watson 53 President of Europe since December 2001 and Chief Operating Officer Europe since December 1998. Mr. Watson has been with ProLogis in varying capacities since November 1992 (through September 1997 he was employed by ProLogis former management company). Prior to joining ProLogis, Mr. Watson was with the Regional Partner for Southwest United States Real Estate with Trammell Crow Company, a diversified commercial real estate company in North America. Prior to the end of 2003, Mr. Watson will relinquish his role as President and Chief Operating Officer Europe and will return to ProLogis world headquarters in Aurora, Colorado.

Walter C. Rakowich 45 Managing Director and Chief Financial Officer of ProLogis since December 1998, where he is responsible for worldwide corporate finance. Mr. Rakowich has been with ProLogis in varying capacities since July 1994 (through September 1997 he was employed by ProLogis former management company). 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.

Edward S. Nekritz 37 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 varying capacities since September 1995 (through September 1997 he was employed by ProLogis former management company). Prior to joining ProLogis, Mr. Nekritz was an attorney with Mayer, Brown & Platt (now Mayer, Brown, Rowe & Maw).

Paul C. Congleton 48 Managing Director of ProLogis since September 1999, where he oversees the Global Capital Group, which is responsible for securing sources of private capital. Mr. Congleton has been with ProLogis in varying capacities since January 1995 (through September 1997 he was employed by ProLogis former management company). 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 55 Managing Director of ProLogis since December 2002, where he has capital management and capital deployment responsibilities for the United Kingdom. Mr. Curtis has been with ProLogis or Kingspark S.A., since June 1997 (ProLogis acquired Kingspark S.A. in August 1998) in varying capacities. Prior to joining Kingspark S.A., Mr. Curtis was with Gazely Properties as a Senior Development Surveyor with responsibilities for the Midlands market of the United Kingdom.

Ranald A. Hahn 47 Managing Director of ProLogis since December 2002, where he has capital management and capital deployment responsibilities for Southern Europe. Mr. Hahn has been with ProLogis in varying capacities since March 1999. Prior to joining ProLogis, Mr. Hahn was the International Business Development Director of GSE, a French logistics construction company.

Steven K. Meyer 55 Managing Director of ProLogis since December 1998, where he has capital deployment responsibilities for the Central/ Mexico region. Mr. Meyer has been with ProLogis in varying capacities since September 1994 (through September 1997 he was employed by ProLogis former management company). Prior to joining ProLogis, Mr. Meyer was an Executive Vice President with Trammell Crow Company, a diversified commercial real estate company in North America. Mr. Meyer will assume the role of President and Chief Operating Officer Europe, completing the transition with Mr. Watson before the end of 2003.

John R. Rizzo 53 Managing Director of ProLogis since December 2000, where he is responsible for the Global Development Group in North America. Mr. Rizzo has been with ProLogis in varying 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, a construction management and general contracting firm.

Robin P. R. von Weiler 46 Managing Director of ProLogis since December 1999, where he has capital management and capital deployment responsibilities for Northern and Central Europe. Mr. von Weiler has been with ProLogis in varying 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.

Gregory J. Arnold 48 Senior Vice President of ProLogis since December 2001, where he oversees the Global Services Group. Mr. Arnold has been with ProLogis in varying capacities since May 1994 (through September 1997 he was employed by ProLogis former management company). 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 38 Senior Vice President of ProLogis since January 2003, where he is a member of the Asian operations group. 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.

Mark R. Cashman 42 Senior Vice President of ProLogis since March 2003, where he has capital management responsibilities for the Central/ Mexico region. Mr. Cashman has been with ProLogis in varying capacities since January 1995 (through September 1997 he was employed by ProLogis former management company). Prior to joining ProLogis, Mr. Cashman was with First Nationwide Financial Corporation, a bank holding company in Los Angeles, California, most recently as First Vice President and Portfolio Manager.

James D. Cochran 42 Senior Vice President of ProLogis since December 2001, where he is a member of the Global Capital Group, which is responsible for securing sources of private capital. Mr. Cochran has been with ProLogis in varying capacities since March 1994 (through September 1997 he was employed by ProLogis former management company). Prior to joining ProLogis, Mr. Cochran was a Vice President with TCW Realty Advisors, a real estate pension advisory firm.

Frank H. Fallon 41 Senior Vice President of ProLogis since September 1999, where he has capital deployment responsibilities for the Southeast region. Mr. Fallon has been with ProLogis in varying capacities since January 1995 (through September 1997 he was employed by ProLogis former management company). Prior to joining ProLogis, Mr. Fallon was a Marketing Principal with Trammell Crow Company, a diversified commercial real estate company in North America.

Ken R. Hall 52 Senior Vice President of ProLogis since December 2002, where he oversees the Global Development Group in Europe. Mr. Hall has been with ProLogis or Kingspark S.A. since July 1998 (ProLogis acquired Kingspark S.A. in August 1998) in varying capacities. Prior to joining Kingspark S.A., Mr. Hall was with Birse Construction, a development company in the United Kingdom, most recently as Managing Director.

Larry H. Harmsen 42 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 varying capacities since February 1995 (through September 1997 he was employed by ProLogis former management company). 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. 58 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 varying capacities since October 1995 (through September 1997 he was employed by ProLogis former management company). 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. 42 Senior Vice President of ProLogis since December 2001, where he has capital deployment responsibilities for the Mid-Atlantic region. Mr. Kiersey has been with ProLogis in varying capacities since May 1994 (through September 1997 he was employed by ProLogis former management company). 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 40 Senior Vice President of ProLogis since March 2003, where he has capital management responsibilities for the Pacific region. Mr. Lamson has been with ProLogis in varying capacities

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since June 1995 (through September 1997 he was employed by ProLogis former management company). 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.

Luke A. Lands 46 Senior Vice President and Controller of ProLogis since August 2000, where he supervises ProLogis accounting, financial reporting and financial forecasting functions. Mr. Lands has been with ProLogis in varying capacities since January 1996 (through September 1997 he was employed by ProLogis former management company). Prior to joining ProLogis, Mr. Lands was Vice President of SCG Realty Services, an affiliate of Security Capital, from February 1995 to January 1996. 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.

Debra A. McRight 43 Senior Vice President of ProLogis since December 1999, where she is responsible for property management operations in ProLogis four North American regions. Ms. McRight has been with ProLogis in varying capacities since September 1995 (through September 1997 she was employed by ProLogis former management company). 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.

Daryl H. Mechem 42 Senior Vice President of ProLogis since March 2003, where he has capital management responsibilities for the Mid-Atlantic region. Mr. Mechem has been with ProLogis in varying capacities since May 1995 (through September 1997 he was employed by ProLogis former management company). Prior to joining ProLogis, Mr. Mechem was the Director of Tennis at Club El Gancho in Santa Fe, New Mexico.

Charles E. Sullivan 45 Senior Vice President of ProLogis since December 2001, where he has capital management responsibilities for the Southeast region. Mr. Sullivan has been with ProLogis in varying capacities since October 1994 (through September 1997 he was employed by ProLogis former management company). Prior to joining ProLogis, Mr. Sullivan was an Industrial Broker with Cushman & Wakefield of Florida, a real estate brokerage and services company.

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, or being acquired, as of December 31, 2002, 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.

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Insurance Coverage

ProLogis and its unconsolidated investees currently carry comprehensive insurance coverage including property, liability, fire, flood, earthquake, environmental, terrorism, extended coverage and rental loss, as appropriate for the markets where each of their properties and their business operations are located. The insurance coverage contains policy specifications and insured limits customarily carried for similar properties and business activities. ProLogis believes its properties and the properties of its unconsolidated investees are adequately insured. However, an uninsured loss could result in 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 bulk industrial distribution properties. These properties generally have an average office finish level of less than 10%. Due to the costs associated with retrofitting space for new customers that has previously been used for service center operations, ProLogis has acquired properties containing service center space on a very limited basis, generally as part of portfolio acquisitions in which the majority of the properties being acquired were generic distribution properties. In Japan, ProLogis distribution properties will generally be multi-level centers, which is common in Japan due to the 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 square footage, ProLogis properties at December 31, 2002 that are used for bulk distribution comprised 87.5% of its total operating portfolio, properties used for light manufacturing and assembly comprised 10.9% of its total operating portfolio and properties used for other purposes, primarily service centers, was 1.6% of its total operating portfolio.

ProLogis has commitments with certain property funds that require ProLogis to offer to contribute its stabilized developed properties to the property fund, subject to certain conditions, to the property fund upon completion. During the period that properties are under development, they are included in the CDFS business segment. Regardless of ProLogis intent with respect to a property (i.e., long-term investment or expectation of future contribution or sale), all properties that are classified as operating properties are included in the property operations segment while they are directly owned by ProLogis.

Geographic Distribution

ProLogis has direct ownership of 1,267 distribution properties (operating and under development) in North America, Europe and Japan at December 31, 2002. In North America, properties that are owned directly by ProLogis are located in 37 markets (including two cities that are not target 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 16 markets in eight countries. In Japan, the properties that are owned directly by ProLogis are located in Tokyo. 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 names given by ProLogis. Such markets are identified below along with the major metropolitan areas or cities located in that market to assist in understanding of the information presented in the tables that follow in Item 2.

United States:	
I-81 Corridor, Pennsylvania	Allentown, Bethlehem, Harrisburg
I-95 Corridor, New Jersey	Cranbury, Newark, Secaucus, Trenton
Europe:	
France:	
Central	Orleans, Paris, Vatry
East	Metz
North	Lille, Le Havre
South	Lyon, Marseille
Germany:	
Rhine/Mein	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, Northhampton
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,			
	2002		2001	
	Number of Properties	Percentage of Assets Based on Cost(1)	Number of Properties	Percentage of Assets Based on Cost(1)
North American Markets(2):				
United States:				
Atlanta, Georgia	84	5.22%	89	6.08%
Austin, Texas	27	1.31	27	1.52
Charlotte, North Carolina	30	2.20	31	2.78
Chattanooga, Tennessee	5	0.30	5	0.35
Chicago, Illinois	59	6.07	62	7.99
Cincinnati, Ohio	39	1.95	40	2.52
Columbus, Ohio	29	2.93	31	3.70
Dallas/Ft. Worth, Texas	127	8.52	126	9.83
Denver, Colorado	25	1.52	23	1.60
El Paso, Texas	19	1.24	18	1.45
Ft. Lauderdale/Miami, Florida	11	0.92	12	1.14
Houston, Texas	92	4.86	85	5.07
I-81 Corridor, Pennsylvania	3	0.92	2	1.26

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	December 31,			
	2002		2001	
	Number of Properties	Percentage of Assets Based on Cost(1)	Number of Properties	Percentage of Assets Based on Cost(1)
I-95 Corridor, New Jersey	28	2.98	26	2.70
Indianapolis, Indiana	43	2.53	43	2.96
Kansas City, Kansas/Missouri	29	1.19	29	1.36
Las Vegas, Nevada	17	1.80	18	2.25
Los Angeles/Orange County, California	2	0.94	4	1.40
Louisville, Kentucky	7	0.64	8	1.01
Memphis, Tennessee	48	4.07	43	3.69
Nashville, Tennessee	31	1.72	31	1.96
Oklahoma City, Oklahoma	6	0.22	6	0.25
Orlando, Florida	19	1.31	19	1.54
Phoenix, Arizona	30	1.30	30	1.52
Portland, Oregon	20	0.92	20	1.09
Reno, Nevada	23	1.85	25	2.85
Salt Lake City, Utah	7	0.88	7	1.01
San Antonio, Texas	51	2.36	43	2.06
San Francisco (East Bay), California	53	4.34	52	4.89
San Francisco (South Bay), California	71	4.43	71	5.21
Seattle, Washington	14	1.10	14	1.30
St. Louis, Missouri	14	1.44	13	0.83
Tampa, Florida	64	2.88	62	3.04
Tulsa, Oklahoma	9	0.24	9	0.28
Washington D.C./Baltimore, Maryland	42	3.35	39	3.17
Other(3)	2	0.10	3	0.11
Mexico:				
Juarez	12	0.70	10	0.54
Monterrey	8	0.64	11	1.16
Reynosa	11	0.66	15	1.21
Tijuana	2	0.18	5	0.59
Subtotal North America(2)	1,213	82.73	1,207	95.27
European Markets(4)(5):				
Belgium			1	0.15
Czech Republic:				
Prague	1	0.24		
France:				
Central	1	0.18		
North	2	0.36	2	0.40
South	3	0.54	2	0.40
Germany:				
Rhine/Mein	1	0.32		
Rhine/Ruhr	2	0.32	1	0.21
Hungary:				
Budapest			1	0.23
Italy:				
Milan	3	0.69	1	0.29
Netherlands:				
South	1	0.37	2	0.66

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	December 31,			
	2002		2001	
	Number of Properties	Percentage of Assets Based on Cost(1)	Number of Properties	Percentage of Assets Based on Cost(1)
Poland:				
South	1	0.07		
Warsaw	1	0.18	1	0.19
West	1	0.04	2	0.17
Spain:				
Barcelona			1	0.26
Madrid	2	0.52	2	0.59
United Kingdom:				
East Midlands	12	2.61		
London and Southeast	14	5.08		
North	1	0.27		
West Midlands	4	1.14		
Subtotal Europe(4)(5)	50	12.93	16	3.55
Asia(6):				
Tokyo, Japan	4	4.34	1	1.18
Total	**1,267(7)**	**100.00%**	**1,224(7)**	**100.00%**

(1) Properties under development are reflected at the total expected cost at completion, rather than at the cost incurred as of the dates presented.

(2) ProLogis is committed to offer to contribute its stabilized properties developed in North America (excluding properties developed in the Los Angeles/ Orange County market) through December 2003 to ProLogis North American Properties Fund V, subject to the property meeting certain specified criteria, including leasing criteria, and the property fund having the capital to acquire the property. ProLogis California has the right of first offer with respect to ProLogis stabilized developed properties, excluding properties developed under build to suit lease agreements, in the Los Angeles/ Orange County market, subject to the property meeting certain specified criteria, including leasing criteria, and the property fund having the capital to acquire the property. Stabilized development properties offered to ProLogis California that are not accepted must then be offered to ProLogis North America Properties Fund V.

(3) In 2002, includes one property in each of Akron, Ohio and Brownsville, Texas. In 2001, includes one property in each of Akron, Ohio, Brownsville, Texas and Norfolk, Virginia.

(4) ProLogis is committed to offer to contribute its stabilized properties developed in specific markets in Europe through September 2019 to ProLogis European Properties Fund, subject to the property meeting certain specified criteria, including leasing criteria, and the property fund having the capital to acquire the property.

(5) Kingspark S.A., a wholly owned subsidiary at December 31, 2002, performs CDFS business activities in the United Kingdom only. Prior to July 1, 2002, ProLogis investment in Kingspark S.A. was presented under the equity method. On July 1, 2002, ProLogis began consolidating its investment in Kingspark S.A. in its financial statements coincident with ProLogis acquisition of all of the voting ownership interests in Kingspark S.A. Previously ProLogis ownership interests were all non-voting.

At December 31, 2001, Kingspark S.A. had 16 operating properties aggregating 1.6 million square feet at an investment of $140.5 million and 13 properties under development aggregating 2.4 million square feet with an expected cost at completion of $262.2 million. See Item 1. Business ProLogis Operating Segments CDFS Business Segment and Notes 2 and 4 to ProLogis Consolidated Financial Statements in Item 8.

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(6) ProLogis is committed to offer to contribute its stabilized properties developed in Japan to ProLogis Japan Properties Fund through June 2006, subject to the property meeting certain specified criteria, including leasing criteria, and the property fund having the capital to acquire the properties.

(7) Includes 37 properties under development at December 31, 2002 and 16 properties under development at December 31, 2001.

Properties

The information in the following table is as of December 31, 2002 for the properties directly owned by ProLogis and its consolidated subsidiaries and partnerships, which may not be 100% owned by ProLogis (see Real Estate Partnerships). No individual property or group of properties operated as a single business unit amounted to 10% or more of ProLogis consolidated total assets at December 31, 2002 or generated income equal to 10% or more of ProLogis consolidated gross revenues or total income for the year ended December 31, 2002. The table does not include properties that are owned by property funds or ProLogis other unconsolidated investees which are discussed under Unconsolidated Investees.

	No. of Bldgs.	Percentage Occupancy (1)	Rentable Square Footage	Investment (2)	Encumbrances (3)
Operating Properties Directly Owned at December 31, 2002(4):					
North American Markets(5):					
United States:					
Atlanta, Georgia(6)	84	80.18%	8,838,837	$274,116,732	$35,814,394
Austin, Texas	27	90.00	1,759,309	68,533,410	
Charlotte, North Carolina	30	89.48	3,801,070	115,703,160	41,515,093
Chattanooga, Tennessee	5	100.00	1,147,872	15,598,174	
Chicago, Illinois	59	91.34	7,678,325	318,521,990	44,975,541
Cincinnati, Ohio	39	85.20	3,880,392	102,222,659	40,575,593
Columbus, Ohio	29	93.24	4,636,360	154,002,823	30,864,422
Dallas/ Ft. Worth, Texas	127	75.77	13,638,967	447,212,535	64,957,334
Denver, Colorado	24	87.66	2,753,996	75,453,033	
El Paso, Texas	18	90.77	2,181,522	63,390,093	2,390,232
Ft. Lauderdale/ Miami, Florida	10	96.16	795,237	39,783,464	1,782,491
Houston, Texas	90	91.89	8,387,225	249,436,056	46,374,600
I-81 Corridor, Pennsylvania	3	100.00	1,068,420	48,304,131	16,837,001
I-95 Corridor, New Jersey(7)	28	86.71	3,939,353	156,568,514	28,334,653
Indianapolis, Indiana	43	76.36	4,184,599	132,800,481	
Kansas City, Kansas/ Missouri	29	87.80	1,578,487	62,265,395	12,111,655
Las Vegas, Nevada	17	96.67	2,061,291	94,666,595	17,285,448
Los Angeles/ Orange County, California	1	100.00	249,283	11,407,072	
Louisville, Kentucky	7	77.39	1,469,988	33,810,237	6,207,602
Memphis, Tennessee	48	86.01	8,139,029	213,663,802	11,485,712
Nashville, Tennessee	30	78.45	3,235,280	82,114,061	7,031,091
Oklahoma City, Oklahoma	6	82.39	639,942	11,504,076	
Orlando, Florida	19	93.36	1,750,236	68,861,393	7,815,917
Phoenix, Arizona	30	89.79	2,016,336	68,444,781	
Portland, Oregon	20	94.64	1,330,129	48,400,079	374,805
Reno, Nevada	23	92.12	2,702,923	97,273,089	10,771,658
Salt Lake City, Utah	7	88.47	1,643,468	46,243,660	
San Antonio, Texas	50	91.49	4,327,143	118,600,252	
San Francisco (East Bay), California	53	88.78	5,655,697	227,700,329	20,643,800

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	No. of Bldgs.	Percentage Occupancy (1)	Rentable Square Footage	Investment (2)	Encumbrances (3)
San Francisco (South Bay), California	71	84.14	3,694,781	232,763,811	17,131,901
Seattle, Washington	14	87.32	1,272,827	57,640,735	4,652,083
St. Louis, Missouri	13	85.05	1,251,825	38,309,893	7,932,787
Tampa, Florida	64	90.97	3,906,175	151,484,260	26,990,563
Tulsa, Oklahoma	9	96.42	523,623	12,533,713	
Washington D.C./ Baltimore, Maryland	42	93.01	4,221,518	175,979,160	50,442,077
Other(8)	2	100.00	215,723	4,995,993	390,730
Mexico:					
Juarez	12	92.13	966,918	36,511,743	
Monterrey	6	100.00	582,663	23,913,216	
Reynosa	11	74.43	967,041	34,749,507	
Tijuana	2	100.00	262,220	9,476,027	
Subtotal North America(5)	1,202	86.86	123,356,030	4,224,960,134	555,689,183
European Markets(9):					
France:					
North	1	0.00	192,977	7,780,588	
South	2	34.44	560,718	18,403,705	
Germany:					
Rhine/ Ruhr	1	0.00	176,121	9,885,191	
Netherlands:					
South	1	0.00	456,760	19,669,313	
Poland:					
South	1	100.00	123,000	3,288,943	
Spain:					
Madrid	2	0.00	608,467	27,541,457	
United Kingdom:					
East Midlands	11	18.49	1,137,453	127,165,729	
London and Southeast	5	0.00	509,423	68,832,669	
North	1	0.00	185,123	14,103,901	
West Midlands	3	27.69	649,996	46,242,057	
Subtotal Europe(9)	28	15.36	4,600,038	342,913,553	
Total Operating Properties Directly Owned at December 31, 2002(4)	**1,230**	**84.29%**	**127,956,068**	**$4,567,873,687**	**$555,689,183**

	No. of Bldgs.	Rentable Square Footage	Investment (2)	Total Expected Cost (10)
Properties Under Development at December 31, 2002(11)(12):				
North American Markets:				
United States:				
Denver, Colorado	1	95,700	$ 2,218,101	$ 4,532,693
El Paso, Texas	1	53,240	1,065,827	1,959,452

Ft. Lauderdale/ Miami, Florida	1	164,511	6,952,728	8,427,327
Houston, Texas	2	153,600	4,364,068	5,897,186
Los Angeles/ Orange County, California	1	1,056,484	25,867,107	38,060,512

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	No. of Bldgs.	Rentable Square Footage	Investment (2)	Total Expected Cost (10)
Nashville, Tennessee	1	301,440	3,469,975	8,275,945
San Antonio, Texas	1	136,987	1,249,760	5,397,995
St. Louis, Missouri	1	1,262,648	26,202,112	37,159,396
Mexico:				
Monterrey	2	242,338	3,965,282	9,655,297
Subtotal North America	11	3,466,948	75,354,960	119,365,803
European Markets:				
Czech Republic:				
Prague	1			