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PROLOGIS TRUST
Form 10-Q
November 13, 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2001
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 01-12846

PROLOGIS TRUST
(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
(Address or principal executive offices)

80011
(Zip Code)

(303) 375-9292
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year,
if changed since last report)

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 for the past 90 days. Yes X_ No ___

The number of shares outstanding of the Registrant's common stock as of November 9, 2001 was 174,953,233.

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ProLogis Trust

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PROLOGIS TRUST

CONSOLIDATED CONDENSED BALANCE SHEETS
(In thousands, except share data)

	September 30, 2001	De
	----- (Unaudited)	----- (
ASSETS		
Real estate.....	\$ 5,005,056	\$
Less accumulated depreciation.....	555,690	
	-----	-----
	4,449,366	
Investments in and advances to unconsolidated entities.....	820,100	
Cash and cash equivalents.....	87,310	
Accounts and notes receivable.....	32,180	
Other assets.....	288,911	
	-----	-----
Total assets.....	\$ 5,677,867	\$
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Lines of credit.....	\$ 287,553	\$
Senior unsecured debt.....	1,670,271	
Mortgage notes and other secured debt.....	531,836	
Accounts payable and accrued expenses.....	149,747	
Construction payable.....	40,731	
Distributions and dividends payable.....	729	
Other liabilities.....	122,821	
	-----	-----
Total liabilities.....	2,803,688	
	-----	-----
Minority interest.....	45,938	
Shareholders' equity:		
Series A Preferred Shares; \$0.01 par value; 5,400,000 shares issued and outstanding at December 31, 2000; stated liquidation preference of \$25.00 per share.....	--	
Series B Preferred Shares; \$0.01 par value; 6,256,100 shares issued and outstanding at December 31, 2000; stated liquidation preference of \$25.00 per share.....	--	
Series C Preferred Shares; \$0.01 par value; 2,000,000 shares issued and outstanding at September 30, 2001 and December 31, 2000; stated liquidation preference of \$50.00 per share.....	100,000	
Series D Preferred Shares; \$0.01 par value; 10,000,000 shares issued and outstanding at September 30, 2001 and December 31, 2000; stated liquidation preference of \$25.00 per share.....	250,000	
Series E Preferred Shares; \$0.01 par value; 2,000,000 shares issued and outstanding at September 30, 2001 and December 31, 2000; stated liquidation preference of \$25.00 per share.....	50,000	
Common shares of beneficial interest; \$0.01 par value; 174,645,388 shares issued and outstanding at September 30, 2001 and 165,287,358 shares issued and outstanding at December 31, 2000.....	1,746	

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Additional paid-in capital.....	2,933,202	
Employee share purchase notes.....	(17,161)	
Accumulated other comprehensive income.....	(53,198)	
Distributions in excess of net earnings.....	(436,348)	
	-----	----
Total shareholders' equity.....	2,828,241	
	-----	----
Total liabilities and shareholders' equity.....	\$ 5,677,867	\$
	=====	=====

The accompanying notes are an integral part of these consolidated condensed financial statements.

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PROLOGIS TRUST

CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS
AND COMPREHENSIVE INCOME
(Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30,		N
	2001	2000	20
	-----	-----	----
Income:			
Rental income.....	\$ 116,547	\$ 121,519	\$ 35
Other real estate income.....	36,326	19,479	11
Income (loss) from unconsolidated entities.....	(3,101)	21,336	
Interest and other income.....	993	1,334	
	-----	-----	----
Total income.....	150,765	163,668	47
	-----	-----	----
Expenses:			
Rental expenses, net of recoveries of \$23,485 and \$72,243 for the three and nine months in 2001, respectively, and \$22,426 and \$68,163 for the three and nine months in 2000, respectively, and including amounts paid to affiliate of \$174 for the nine months in 2001 and \$294 and \$919 for the three and nine months in 2000, respectively.....	7,973	6,486	2
General and administrative, including amounts paid to affiliate of \$170 for the nine months in 2001 and \$252 and \$719 for the three and nine months in 2000, respectively.....	11,312	9,652	3

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Depreciation and amortization.....	37,170	35,448	10
Interest.....	37,645	43,700	11
Loss on investment.....	--	--	
Other.....	754	1,188	
	-----	-----	-----
Total expenses.....	94,854	96,474	29
	-----	-----	-----
Earnings from operations.....	55,911	67,194	18
Minority interest share in earnings.....	1,502	1,228	
	-----	-----	-----
Earnings before gain on disposition of real estate and foreign currency exchange losses.....	54,409	65,966	17
Gain on disposition of real estate, net.....	3,488	702	
Foreign currency exchange losses, net.....	(25)	(1,929)	(
	-----	-----	-----
Earnings before income taxes.....	57,872	64,739	17
Income taxes:			
Current income tax expense.....	859	465	
Deferred income tax expense (benefit).....	(77)	1,535	
	-----	-----	-----
Total income taxes.....	782	2,000	
	-----	-----	-----
Net earnings.....	57,090	62,739	16
Less preferred share dividends.....	8,179	14,120	2
	-----	-----	-----
Net earnings attributable to Common Shares.....	48,911	48,619	13
Other comprehensive income:			
Foreign currency translation adjustments.....	43,200	(38,263)	(1
	-----	-----	-----
Comprehensive income.....	\$ 92,111	\$ 10,356	\$ 11
	=====	=====	=====
Weighted average Common Shares outstanding - Basic.....	174,507	164,317	17
	=====	=====	=====
Weighted average Common Shares outstanding - Diluted.....	175,586	170,578	17
	=====	=====	=====
Per Common Share:			
Basic net earnings attributable to Common Shares.....	\$ 0.28	\$ 0.30	\$
	=====	=====	=====
Diluted net earnings attributable to Common Shares.....	\$ 0.28	\$ 0.29	\$
	=====	=====	=====
Distributions.....	\$ 0.345	\$ 0.335	\$
	=====	=====	=====

The accompanying notes are an integral part of these consolidated condensed financial statements.

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	September	
	2001	
Operating activities:		
Net earnings.....	\$ 166,600	\$
Minority interest share in earnings.....	4,350	
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization.....	109,352	
Gain on disposition of real estate.....	(863)	
Straight-lined rents.....	(5,392)	
Amortization of deferred loan costs.....	3,689	
Stock-based compensation.....	5,150	
Income (loss) from unconsolidated entities.....	5,715	
Loss on investment.....	7,456	
Deferred income tax expense.....	1,096	
Foreign currency exchange losses, net.....	1,757	
Increase in accounts receivable and other assets.....	(21,753)	
Increase in accounts payable, accrued expenses and other liabilities.....	48,690	

Net cash provided by operating activities.....	325,847	

Investing activities:		
Real estate investments.....	(869,273)	
Tenant improvements and lease commissions on previously leased space.....	(16,379)	
Recurring capital expenditures.....	(23,401)	
Proceeds from dispositions of real estate.....	875,541	
Distributions and debt repayments received from unconsolidated entities..	293,469	
Investments in and advances to unconsolidated entities.....	(139,569)	
Proceeds from repayment of note receivable.....	10,424	
Cash balances recorded upon consolidation of Kingspark Holding S. A.....	89,788	
Cash balances contributed as part of ProLogis European Properties S.a.r.l.	--	

Net cash provided by (used in) investing activities.....	220,600	

Financing activities:		
Net proceeds from exercised options and dividend reinvestment and share purchase plans.....	48,575	
Repurchase of Common Shares, net of costs.....	(16,000)	
Redemption of Series A preferred shares.....	(135,000)	
Redemption of Series B convertible preferred shares.....	(4,583)	
Debt issuance and other transaction costs incurred.....	(1,815)	
Distributions paid on Common Shares.....	(177,332)	
Distributions paid to minority interest holders.....	(5,248)	
Distributions paid on preferred shares.....	(29,130)	
Principal payments on senior unsecured debt.....	(30,000)	
Principal payments received on employee share purchase notes.....	1,395	
Payments on the purchase of derivative financial instruments.....	(2,232)	
Proceeds from settlement of derivative financial instruments.....	106	
Proceeds from lines of credit.....	976,406	
Payments on lines of credit.....	(1,128,675)	
Regularly scheduled principal payments on mortgage notes.....	(5,930)	
Principal prepayments on mortgage notes.....	(7,544)	

Net cash used in financing activities.....	(517,007)	

Net increase in cash and cash equivalents.....	29,440	
Cash and cash equivalents, beginning of period.....	57,870	

Cash and cash equivalents, end of period.....	\$ 87,310	\$

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See Note 9 for information on non-cash investing and financing activities.

The accompanying notes are an integral part of these consolidated condensed financial statements.

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PROLOGIS TRUST

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
September 30, 2001
(Unaudited)

1. General:

Business

ProLogis Trust (collectively with its consolidated subsidiaries and partnerships "ProLogis") is a publicly held real estate investment trust ("REIT") that owns and operates a network of industrial distribution facilities in North America, Europe and Asia (Japan). The ProLogis Operating System(R), comprised of the Market Services Group, the Global Services Group, the Global Development Group and the Integrated Solutions Group, utilizes ProLogis' international network of distribution facilities to meet its customers' distribution space needs globally. ProLogis has organized its business into three operating segments: property operations, corporate distribution facilities services business ("CDFs business") and temperature-controlled distribution operations. See Note 8.

Principles of Financial Presentation

The consolidated condensed financial statements of ProLogis as of September 30, 2001 and for the three and nine months ended September 30, 2001 and 2000 are unaudited and, pursuant to the rules of the Securities and Exchange Commission, certain information and footnote disclosures normally included in financial statements have been omitted. While management of ProLogis believes that the disclosures presented are adequate, these interim consolidated condensed financial statements should be read in conjunction with ProLogis' December 31, 2000 audited consolidated financial statements contained in ProLogis' 2000 Annual Report on Form 10-K.

In the opinion of management, the accompanying unaudited consolidated condensed financial statements contain all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of ProLogis' consolidated financial position and results of operations for the interim periods. The consolidated results of operations for the three and nine months ended September 30, 2001 and 2000 are not necessarily indicative of the results to be expected for the entire year. Certain of the 2000 amounts have been reclassified to conform to the 2001 financial statement presentation.

The preparation of consolidated condensed financial statements in conformity with United States generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported

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amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated condensed financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ProLogis' investment in Kingspark Holding S.A. ("Kingspark S.A."), an industrial distribution facility development company in the United Kingdom was previously accounted for under the equity method. ProLogis owned 100% of the preferred stock of Kingspark S.A. and recognized substantially all economic benefits of Kingspark S.A. and its subsidiaries through January 4, 2001. On January 5, 2001, ProLogis acquired an ownership interest in the common stock of Kingspark S.A. resulting in ProLogis having control of Kingspark S.A. Accordingly, as of January 5, 2001, the accounts of Kingspark S.A. and its subsidiaries are consolidated in ProLogis' condensed financial statements along with ProLogis' other majority-owned and controlled subsidiaries and partnerships.

As of September 30, 2001, ProLogis owned 100% of the preferred stock of ProLogis Development Services Incorporated ("ProLogis Development Services") and realizes substantially all economic benefits of this entity's activities. Because ProLogis advances mortgage loans to ProLogis Development Services to fund its acquisition, development and construction activities, ProLogis Development Services is consolidated in ProLogis' condensed financial statements along with ProLogis' other majority-owned and controlled subsidiaries and partnerships. ProLogis Development Services is not a qualified REIT subsidiary of ProLogis under the Internal Revenue Code of 1986, as amended (the "Code"). Accordingly, provisions for federal and state income taxes are recognized, as appropriate.

Recently issued Statements of Financial Accounting Standards ("SFAS") that are applicable to ProLogis' business are:

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- o SFAS No. 142, "Goodwill and Other Intangible Assets" provides that goodwill is no longer subject to amortization over its estimated useful life. Rather, goodwill will be subject to at least an annual assessment for impairment by applying a fair-value-based-test (the impairment guidance in existing rules for equity method goodwill will continue to apply). SFAS No. 142 also changes the rules for recognition of acquired intangible assets other than goodwill but continues to require that intangible assets be amortized over their useful lives.

- o SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" establishes a single accounting model for long-lived assets to be disposed of by sale and provides implementation guidance with respect to accounting for impairment of long-lived assets. SFAS No. 144 requires that discontinued operations be measured on the same basis as other long-lived assets (the lower of its carrying amount or fair value less cost to sell) rather than at the net realizable value as previously required. Additionally, future operating losses of discontinued operations are no longer recognized before they occur.

SFAS Nos. 142 and 144 are effective for ProLogis' fiscal year ending December 31, 2002. Management is still evaluating the effects these standards will have, if any, on ProLogis' consolidated financial position, results of operations or financial statement disclosures. For the nine months ended September 30, 2001 and 2000, ProLogis recognized amortization expense related to

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recognized goodwill of \$2.3 million and \$1.8 million, respectively, as a component of "Depreciation and Amortization" in its Consolidated Condensed Statements of Earnings and Comprehensive Income.

Interest Expense

Interest expense was \$115.2 million and \$128.5 million for the nine months in 2001 and 2000, respectively, which is net of capitalized interest of \$26.6 million and \$12.8 million, respectively. Amortization of deferred loan costs included in interest expense was \$3.7 million and \$3.0 million for the nine months in 2001 and 2000, respectively. Total interest paid in cash on all outstanding debt was \$133.2 million and \$123.3 million for the nine months in 2001 and 2000, respectively.

Financial Instruments

In the normal course of business, ProLogis uses certain derivative financial instruments for the purpose of foreign currency exchange rate and interest rate risk management. All derivative financial instruments are accounted for at fair value with changes in fair value recognized immediately in accumulated other comprehensive income or income.

ProLogis adopted SFAS No. 133, "Accounting for Derivative Instruments and for Hedging Activities," as amended, on January 1, 2001. SFAS No. 133 provides comprehensive guidelines for the recognition and measurement of derivatives and hedging activities and, specifically, requires all derivatives to be recorded on the balance sheet at fair value as an asset or liability, with an offset to accumulated other comprehensive income or income. ProLogis' only derivative financial instruments in effect at September 30, 2001 were foreign currency put option contracts. Similar foreign currency put option contracts were marked to market through income in 2000 because they did not qualify for hedge accounting treatment. Under SFAS No. 133, these contracts also do not qualify for hedge accounting treatment. Consequently, ProLogis has continued to mark its foreign currency put option contracts to market through income during the nine months ended September 30, 2001. ProLogis' unconsolidated entities also adopted SFAS No. 133 on January 1, 2001. The effect to ProLogis of their adoption of SFAS No. 133 was immaterial as these entities utilize derivative financial instruments on a limited basis.

In assessing the fair value of its financial instruments, both derivative and non-derivative, ProLogis uses a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date. Primarily, ProLogis uses quoted market prices or quotes from brokers or dealers for the same or similar instruments. These values represent a general approximation of possible value and may never actually be realized.

Foreign Currency Exchange Gains or Losses

ProLogis' consolidated subsidiaries whose functional currency is not the U.S. dollar translate their financial statements into U.S. dollars. Assets and liabilities are translated at the exchange rate in effect as of the financial statement date. Income statement accounts are translated using the average exchange rate for the period. Income statement accounts that represent significant, nonrecurring transactions are translated at the rate in effect as of the date of the transaction. Gains and losses resulting from the translation are included in accumulated other comprehensive income as a separate component of shareholders' equity.

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ProLogis and its foreign subsidiaries have certain transactions denominated in currencies other than their functional currency. In these instances, nonmonetary assets and liabilities are remeasured at the historical exchange rate, monetary assets and liabilities are remeasured at the exchange rate in effect at the end of the period, and income statement accounts are remeasured at the average exchange rate for the period. Gains and losses from remeasurement are included in ProLogis' results of operations.

Gains or losses are recorded in the income statement when a transaction with a third party, denominated in a currency other than the functional currency, is settled and the functional currency cash flows realized are more or less than expected based upon the exchange rate in effect when the transaction was initiated.

The net foreign currency exchange gains and losses recognized in ProLogis' results of operations were as follows for the periods indicated (in thousands of U.S. dollars):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Gains (losses) from the remeasurement of third party debt and remeasurement and settlement of intercompany debt, net.....	\$ 1,088	\$ (2,661)	\$ (3,721)	\$ (21,6
Mark to market gains (losses) on foreign currency put option contracts (1).....	(817)	(477)	245	
Gains (losses) from the settlement of foreign currency put option contracts, net (1).....	(417)	1,427	(998)	1,5
Other gains (losses), net.....	121	(218)	(117)	(2
Total.....	\$ (25)	\$ (1,929)	\$ (4,591)	\$ (20,3

2. Real Estate:

Real Estate Investments

Real estate investments consisting of income producing industrial distribution facilities, facilities under development and land held for future development, at cost, are summarized as follows (in thousands):

	September 30, 2001	December 31, 2000
Operating facilities:		
Improved land.....	\$ 657,863 (1)	\$ 648,950 (1)
Buildings and improvements.....	3,539,384 (1)	3,619,543 (1)
	4,197,247	4,268,493
Facilities under development (including cost of land).....	375,722 (2) (3)	186,020 (2)

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Land held for development.....	310,997 (4)	187,405 (4)
Capitalized preacquisition costs.....	121,090 (5)	47,574 (5)
	-----	-----
Total real estate.....	5,005,056	4,689,492
Less accumulated depreciation.....	555,690	476,982
	-----	-----
Net real estate.....	\$ 4,449,366	\$ 4,212,510
	=====	=====

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ProLogis' operating facilities, facilities under development and land held for future development are located in North America (the United States and Mexico), in ten countries in Europe and in Japan. No individual market represents more than 10% of ProLogis' real estate assets.

Operating Lease Agreements

ProLogis leases its facilities to customers under agreements, which are classified as operating leases. The leases generally provide for payment of all or a portion of utilities, property taxes and insurance by the tenant. As of September 30, 2001, minimum lease payments on leases with lease periods greater than one year are as follows (in thousands):

Remainder of 2001.....	\$ 110,044	
2002.....	401,552	
2003.....	325,768	
2004.....	240,684	
2005.....	172,394	
2006 and thereafter.....	352,162	

	\$ 1,602,604	
	=====	

ProLogis' largest customer (based on rental income) accounted for 0.9% of ProLogis' rental income (on an annualized basis) for the nine months ended September 30, 2001. The annualized base rent for ProLogis' 25 largest customers (based on rental income) accounted for 12.8% of ProLogis' rental income (on an annualized basis) for the nine months ended September 30, 2001.

3. Unconsolidated Entities:

Investments In and Advances To Unconsolidated Entities

Investments in and advances to unconsolidated entities are as follows (in thousands):

	September 30, 2001	December 31, 2000
	-----	-----
Temperature-controlled distribution companies:		
CSI/Frigo LLC (1).....	\$ 1,994	\$ --
ProLogis Logistics (2) (3).....	132,257	231,053
Frigoscandia S.A. (2) (4).....	185,025	191,981
	-----	-----
	319,276	423,034

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Distribution real estate entities:

ProLogis California (5).....	119,294	132,243
ProLogis North American Properties Fund I (6)....	44,238	10,369
ProLogis North American Properties Fund II (7)...	8,642	13,408
ProLogis North American Properties Fund III (8)...	6,452	--
ProLogis North American Properties Fund IV (9)...	4,315	--
ProLogis European Properties Fund (10).....	226,112	147,938
ProLogis European Properties S.a.r.l. (10).....	--	84,767
	-----	-----
	409,053	388,725
Kingspark S. A. (11).....	--	570,582
ProLogis Kingspark Joint Ventures (12).....	31,224	--
Insight (13).....	2,459	2,470
ProLogis Equipment Services (14).....	1,772	450
GoProLogis (15).....	56,316	56,315
ProLogis Phatpipe (16).....	--	11,572
	-----	-----
Total.....	\$ 820,100	\$ 1,453,148
	=====	=====

Income (Loss) from Unconsolidated Entities

ProLogis recognized income (loss) from its investments in unconsolidated entities as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
	-----	-----	-----	-----
Temperature-controlled distribution companies:				
CSI/Frigo LLC (1).....	\$ (550)	\$ --	\$ (1,343)	\$ --
ProLogis Logistics (2).....	(1,036)	2,196	(3,636)	8,000
Frigoscandia S.A (2).....	(8,066)	(5,755)	(18,061)	(10,800)
	-----	-----	-----	-----
	(9,652)	(3,559)	(23,040)	(2,799)
	-----	-----	-----	-----
Distribution real estate entities:				
ProLogis California (3).....	3,067	3,543	10,186	9,500
ProLogis North American Properties Fund I (4)...	967	1,233	3,561	1,200
ProLogis North American Properties Fund II (5)...	728	307	1,634	300
ProLogis North American Properties Fund III (6)...	542	--	582	--
ProLogis North American Properties Fund IV (7)...	(12)	--	(12)	--
ProLogis European Properties Fund (8).....	1,023	4,637	7,959	8,900
ProLogis European Properties S.a.r.l. (9).....	--	2,811	36	7,600
	-----	-----	-----	-----
	6,315	12,531	23,946	27,700
	-----	-----	-----	-----
Kingspark S.A. (10).....	--	11,083	--	20,400
ProLogis Kingspark Joint Ventures (11).....	236	--	1,753	--
Insight.....	--	36	(10)	--
ProLogis Equipment Services.....	--	--	(155)	--
GoProLogis (12).....	--	1,171	3,043	1,100
ProLogis PhatPipe (12).....	--	74	667	--
	-----	-----	-----	-----
	\$ (3,101)	\$ 21,336	\$ 6,204	\$ 46,700
	=====	=====	=====	=====

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Temperature-Controlled Distribution Companies

ProLogis' total investment in its temperature-controlled distribution companies as of September 30, 2001 consisted of (in millions of U.S. dollars):

	CSI/Frigo LLC	ProLogis Logistics (1)	Frigoscandia S.A. (2)
	-----	-----	-----
Equity interest.....	\$ 0.4	\$ 138.4	\$ 22.6
ProLogis' share of the earnings of the entity...	(1.5)	(16.4)	(95.9)
	-----	-----	-----
Subtotal.....	(1.1)	122.0	(73.3)
Other (including acquisition costs), net.....	--	--	1.7
	-----	-----	-----
Subtotal.....	(1.1)	122.0	(71.6)
Notes and other receivables.....	3.1	10.2	256.6
	-----	-----	-----
Total.....	\$ 2.0	\$ 132.2	\$ 185.0
	=====	=====	=====

Distribution Real Estate Entities

ProLogis' total investment in its distribution real estate entities as of September 30, 2001 consisted of (in millions of U.S. dollars):

	ProLogis California	ProLogis North American Properties Fund I	ProLogis North American Properties Fund II	ProLogis North American Properties Fund III	ProLogis North American Properties Fund IV
	-----	-----	-----	-----	-----
Equity interest.....	\$ 161.1	\$ 52.6	\$ 14.3	\$ 11.8	\$ 11.8
Distributions.....	(35.5)	(4.6)	(1.2)	(0.4)	(0.4)
ProLogis' share of the earnings of the entity, excluding fees earned.....	20.0	2.1	0.2	--	--
	-----	-----	-----	-----	-----
Subtotal.....	145.6	50.1	13.3	11.4	11.4
Adjustments to carrying value (3).....	(28.0)	(9.4)	(6.4)	(5.9)	(5.9)
Other (including acquisitions costs)...	1.5	2.3	1.3	1.0	1.0
	-----	-----	-----	-----	-----
Subtotal.....	119.1	43.0	8.2	6.5	6.5
Other receivables.....	0.2	1.2	0.4	--	--
	-----	-----	-----	-----	-----
Total.....	\$ 119.3	\$ 44.2	\$ 8.6	\$ 6.5	\$ 6.5
	=====	=====	=====	=====	=====

Summarized Financial Information

Summarized financial information for ProLogis' unconsolidated entities as of and for the nine months ended September 30, 2001 is presented below (in millions of U.S. dollars). The information presented is for the entire entity.

	ProLogis North	ProLogis North	ProLogis North
--	-------------------	-------------------	-------------------

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	ProLogis Logistics (1)	Frigoscandia S.A. (1)	ProLogis California (2)	American Properties Fund I (3)	American Properties Fund II (4)	American Properties Fund III
	-----	-----	-----	-----	-----	-----
Total assets.....	\$ 379.9	\$ 455.7	\$ 592.0	\$ 357.3	\$ 236.2	\$ 210.
Total liabilities (7)...	\$ 257.0	\$ 535.0	\$ 301.0	\$ 238.5	\$ 168.6	\$ 152.
Minority interest.....	\$ --	\$ 0.2	\$ --	\$ --	\$ --	\$
Equity.....	\$ 122.9	\$ (79.5)	\$ 291.0	\$ 118.8	\$ 67.6	\$ 57.
Revenues.....	\$ 233.4	\$ 274.5	\$ 50.6	\$ 31.9	\$ 14.8	\$ 6.
Adjusted EBITDA (8).....	\$ 18.2	\$ 27.4	\$ 41.3	\$ 24.7	\$ 9.8	\$ 3.
Net earnings (loss) (9) ..	\$ (3.7)	\$ (27.9)	\$ 14.7	\$ 4.3	\$ 1.1	\$ 0.

4. Borrowings:

In August 2001, the available commitment under ProLogis' unsecured credit agreement with Bank of America, N.A., Commerzbank AG and Chase Bank of Texas, National Association as Agents for a bank group that provides a revolving line of credit to ProLogis, was increased by \$25.0 million to a total of \$500.0 million.

In September 2001, ProLogis entered into an unsecured credit agreement that provides for a 24.5 billion yen revolving unsecured line of credit (the currency equivalent of \$205.6 million as of September 30, 2001) through a group of 11 banks, on whose behalf Sumitomo Mitsui Banking Corporation acts as agent. Borrowings under the line of credit bear interest at 1.00% over the Tokyo Interbank Offering Rate (TIBOR). Borrowings outstanding as of September 30, 2001 were at a weighted average interest rate of 1.06% per annum. The credit agreement provides for an unused commitment fee of 0.25% per annum. The credit agreement matures on September 13, 2004 and may be extended for an additional year at ProLogis' option. As of September 30, 2001, the currency equivalent of approximately \$46.2 million of borrowings were outstanding on the line of credit and ProLogis was in compliance with all covenants contained in the agreement.

5. Shareholders' Equity:

During the nine months ended September 30, 2001, ProLogis generated net proceeds of \$48.6 million from the issuance of 2,116,000 common shares of beneficial interest, \$0.01 par value ("Common Shares") under its 1999 Dividend Reinvestment and Share Purchase Plan and issued 165,000 Common Shares upon the exercise of stock options.

On January 11, 2001, ProLogis announced a Common Share repurchase program under which it may repurchase up to \$100.0 million of its Common Shares. The Common Shares will be repurchased from time to time in the open market and in privately negotiated transactions, depending on market prices and other conditions. As of September 30, 2001, 778,400 Common Shares had been repurchased at a total cost of \$16.0 million.

ProLogis redeemed all of its outstanding Series B cumulative convertible redeemable preferred shares ("Series B preferred shares") as of March 20, 2001. Subsequent to the call for redemption, 5,908,971 Series B preferred shares were

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converted into 7,575,301 Common Shares. The remaining 183,302 Series B preferred shares outstanding on March 20, 2001 were redeemed at a price of \$25.00 per share, plus \$0.442 in accrued and unpaid dividends, for an aggregate redemption price of \$25.442 per share.

ProLogis redeemed all of its outstanding Series A cumulative redeemable preferred shares of beneficial interest as of May 8, 2001 at the price of \$25.00 per share, plus \$0.2481 in accrued and unpaid dividends, for an aggregate redemption price of \$25.2481 per share.

In May, 2001, ProLogis' shareholders approved the establishment of the ProLogis Trust Employee Share Purchase Plan (the "Plan"). Under the terms of the Plan, employees of ProLogis and its participating subsidiaries may purchase Common Shares, through payroll deductions only, at a discounted price of 85% of the fair market value of the Common Shares. Subject to certain provisions, the aggregate number of Common Shares which may be issued under the Plan may not exceed 5,000,000. ProLogis expects to begin issuing Common Shares under the Plan in January, 2002.

6. Distributions and Dividends:

Common Distributions

On February 23, 2001, May 25, 2001 and August 24, 2001, ProLogis paid a quarterly distribution of \$0.345 per Common Share to shareholders of record on February 9, 2001, May 14, 2001 and August 10, 2001, respectively. The distribution level for 2001 was set by ProLogis' Board of Trustees in December 2000 at \$1.38 per Common Share.

Preferred Dividends

The annual dividend rates on ProLogis' preferred shares are \$4.27 per Series C cumulative redeemable preferred share, \$1.98 per Series D cumulative redeemable preferred share and \$2.1875 per Series E cumulative redeemable preferred share.

On January 31, 2001, April 30, 2001 and July 31, 2001 ProLogis paid quarterly dividends of \$0.5469 per Series E cumulative redeemable preferred share. On March 30, 2001, ProLogis paid quarterly dividends of \$0.5875 per Series A cumulative redeemable preferred share. On March 30, 2001, June 29, 2001 and September 28, 2001, ProLogis paid quarterly dividends of \$1.0675 per Series C cumulative redeemable preferred share and \$0.495 per Series D cumulative redeemable preferred share.

Pursuant to the terms of its preferred shares, ProLogis is restricted from declaring or paying any distribution with respect to the Common Shares unless all cumulative dividends with respect to the preferred shares have been paid and sufficient funds have been set aside for dividends that have been declared for the then-current dividend period with respect to the preferred shares.

7. Earnings Per Common Share:

A reconciliation of the denominator used to calculate basic earnings per Common Share to the denominator used to calculate diluted earnings per Common Share for the periods indicated (in thousands, except per share amounts) is as follows:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Net earnings attributable to Common Shares.....	\$ 48,911	\$ 48,619	\$ 137,470	\$ 137,470
Add: Minority interest share in earnings.....	--	1,228	--	--
Series B preferred share dividends.....	--	--	81	--
Adjusted net earnings attributable to Common Shares.....	\$ 48,911	\$ 49,847	\$ 137,551	\$ 137,551
Weighted average Common Shares outstanding - Basic.....	174,507	164,317	171,932	164,317
Incremental weighted average effect of common stock equivalent and contingently issuable shares.....	1,079	1,097	948	1,097
Weighted average convertible limited partnership units.....	--	5,164	--	5,164
Weighted average Series B preferred shares.....	--	--	2,065	--
Adjusted weighted average Common Shares outstanding - Diluted.....	175,586	170,578	174,945	170,578
Per share net earnings attributable to Common Shares:				
Basic.....	\$ 0.28	\$ 0.30	\$ 0.80	\$ 0.80
Diluted.....	\$ 0.28	\$ 0.29	\$ 0.79	\$ 0.79

For the periods indicated, the following weighted average convertible securities were not included in the calculation of diluted per share net earnings attributable to Common Shares as the effect, on an as-converted basis, was antidilutive (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Series B preferred shares.....	--	8,133	--	8,133
Limited partnership units.....	5,088	--	5,088	--

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8. Business Segments:

ProLogis has three reportable business segments:

- o Property operations represents the long-term ownership and leasing of industrial distribution facilities in the United States (portions of which are owned through ProLogis California, ProLogis North American Properties Fund I, ProLogis North American Properties Fund II, ProLogis North American Properties Fund III and ProLogis North American Properties Fund IV -- See Note 3), Mexico and Europe (portions of which are owned through ProLogis European Properties Fund and ProLogis European Properties S.a.r.l. -- See Note 3); each operating facility is considered to be an individual operating segment having similar economic characteristics which are combined within the reportable segment based upon geographic location;
- o CDFS business operations represents the development of industrial distribution facilities by ProLogis, ProLogis Development Services or Kingspark S.A. and its subsidiaries in the United States, Mexico, Europe and Japan that are often disposed of to third parties or entities in which ProLogis has an ownership interest and the development of industrial distribution facilities by ProLogis on a fee basis for third parties in the United States, Mexico, Europe and Japan; the development activities of ProLogis, ProLogis Development Services or Kingspark S.A. and its subsidiaries are considered to be individual operating segments having similar economic characteristics which are combined within the reportable segment based upon geographic location; and
- o Temperature-controlled distribution operations represents the operation of a temperature-controlled distribution and logistics network through investments in unconsolidated entities in the United States (ProLogis Logistics) and Europe (Frigoscandia S.A.); each company's operating facilities are considered to be individual operating segments having similar economic characteristics which are combined within the reportable segment based upon geographic location. See Note 3.

Reconciliations of the three reportable segments': (i) income from external customers to ProLogis' total income; (ii) net operating income from external customers to ProLogis' earnings from operations (ProLogis' chief operating decision makers rely primarily on net operating income to make decisions about allocating resources and assessing segment performance); and (iii) assets to ProLogis' total assets are as follows (in thousands):

	Nine Months Ended September 30,	
	----- 2001 -----	2000 -----
Income:		
Property operations:		
United States (1).....	\$ 350,349	\$ 359,133
Mexico.....	14,066	11,217
Europe (2).....	13,597	19,447
	-----	-----
Total property operations segment..	378,012	389,797

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CDFS business:		
United States (3).....	66,965	56,630
Mexico.....	(10)	1,543
Europe (4) (5).....	46,538	27,952
	-----	-----
Total CDFS business segment.....	113,493	86,125
	-----	-----
Temperature-controlled distribution operations:		
United States (6).....	(3,663)	8,067
Europe (7).....	(19,377)	(10,806)
	-----	-----
Total temperature-controlled distribution operations segment..	(23,040)	(2,739)
	-----	-----
Reconciling items:		
Income (loss) from unconsolidated entities.....	3,545	1,279
Interest and other income.....	4,449	5,554
	-----	-----
Total reconciling items.....	7,994	6,833
	-----	-----
Total income.....	\$ 476,459	\$ 480,016
	=====	=====
Net operating income:		
Property operations:		
United States (1).....	\$ 326,290	\$ 337,742
Mexico.....	17,272	10,922
Europe (2).....	12,795	20,516
	-----	-----
Total property operations segment..	356,357	369,180
	-----	-----
CDFS business:		
United States (3).....	64,498	53,826
Mexico.....	(84)	1,514
Europe (4) (5).....	46,305	27,901
	-----	-----
Total CDFS business segment.....	110,719	83,241
	-----	-----
Temperature-controlled distribution operations:		
United States (6).....	(3,663)	8,067
Europe (7).....	(19,377)	(10,806)
	-----	-----
Total temperature-controlled distribution operations segment..	(23,040)	(2,739)
	-----	-----
Reconciling items:		
Income (loss) from unconsolidated entities.....	3,545	1,279
Interest and other income.....	4,449	5,554
General and administrative expense...	(39,441)	(32,174)
Depreciation and amortization.....	(109,352)	(112,513)
Interest expense.....	(115,199)	(128,542)
Loss on investment.....	(7,456)	--
Other expense.....	(3)	(954)
	-----	-----
Total reconciling items.....	(263,457)	(267,350)
	-----	-----
Earnings from operations.....	\$ 180,579	\$ 182,332
	=====	=====

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	September 30, 2001	December 31, 2000
	-----	-----
Assets:		
Property operations:		
United States (8).....	\$ 3,737,656	\$ 3,887,601
Mexico.....	130,903	113,538
Europe (8) (9).....	383,009	308,457
	-----	-----
Total property operations segment..	4,251,568	4,309,596
	-----	-----
CDFS business:		
United States.....	222,412	304,697
Mexico.....	31,506	26,288
Europe (9).....	586,415	637,207
Japan.....	40,572	--
	-----	-----
Total CDFS business segment.....	880,905	968,192
	-----	-----
Temperature controlled distribution operations:		
United States (8).....	133,539	231,053
Europe (8).....	185,737	191,981
	-----	-----
Total temperature controlled distribution operations segment..	319,276	423,034
	-----	-----
Reconciling items:		
Investment in and advances to unconsolidated entities.....	60,547	70,807
Cash.....	87,310	57,870
Accounts and notes receivable.....	10,550	43,040
Other assets.....	67,711	73,795
	-----	-----
Total reconciling items.....	226,118	245,512
	-----	-----
Total assets.....	\$ 5,677,867	\$ 5,946,334
	=====	=====

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9. Supplemental Cash Flow Information:

Non-cash investing and financing activities for the nine months ended September 30, 2001, and 2000 are as follows:

- o In 2001, ProLogis contributed its 49.9% of the common stock of ProLogis European Properties S.a.r.l. to ProLogis European Properties Fund for an additional equity interest in ProLogis European Properties Fund of \$83.0 million. In 2000, in connection with ProLogis' initial contribution of 50.1% of the common stock of ProLogis European Properties S.a.r.l. to ProLogis European Properties Fund, ProLogis received an equity interest in ProLogis European Properties Fund of approximately \$78.0 million. ProLogis European Properties S.a.r.l. had total assets of \$403.9 million and total liabilities of \$248.1 million. ProLogis recognized its investment in the remaining 49.9% of the common stock under the equity method from January 7, 2000 through January 6, 2001. See Note 3.

- o ProLogis received \$30.4 million, \$34.1 million, \$13.7 million, \$11.7 million and \$8.2 million of the proceeds from its disposition of facilities to ProLogis European Properties Fund, ProLogis North American Properties Fund I, ProLogis North American Properties Fund II, ProLogis North American Properties Fund III and ProLogis North American Properties Fund IV, respectively, in the form of an equity interest in these entities during 2001. ProLogis received \$5.2 million, \$13.8 million, \$18.6 million and \$0.6 million of the proceeds from its disposition of facilities to ProLogis European Properties Fund, ProLogis California, ProLogis North American Properties Fund I and ProLogis North American Properties Fund II in the form of an equity interest during 2000.
- o ProLogis received \$13.2 million of the proceeds from its disposition of facilities to North American Properties Fund II in the form of notes receivable from this entity during 2000.
- o ProLogis received \$2.3 million and \$7.4 million of the proceeds from its disposition of facilities to third parties in the form of notes receivable in 2001 and 2000, respectively.
- o In connection with the acquisition of a facility, ProLogis assumed a \$7.7 million mortgage note in 2001.
- o In connection with the agreement for the acquisition of Kingspark S.A., ProLogis issued approximately 67,000 and 602,000 Common Shares valued at \$1.5 million and \$11.9 million, respectively, in 2001 and 2000, respectively.
- o Series B preferred shares aggregating \$151.8 million and \$17.7 million were converted into Common Shares in 2001 and 2000, respectively.
- o Net foreign currency translation adjustments of \$(19,430,000) and \$(49,613,000) were recognized in 2001 and 2000, respectively.

10. Commitments and Contingencies:

Environmental Matters

All of the facilities acquired by ProLogis have been subjected to environmental reviews by ProLogis or predecessor owners. While some of these assessments have led to further investigation and sampling, none of the environmental assessments has revealed, nor is ProLogis aware of any environmental liability (including asbestos related liability) that ProLogis believes would have a material adverse effect on ProLogis' business, financial condition or results of operations.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Trustees and Shareholders of ProLogis Trust:

We have reviewed the accompanying consolidated condensed balance sheets of ProLogis Trust and subsidiaries as of September 30, 2001, and the related consolidated condensed statements of earnings and comprehensive income for the three and nine months ended September 30, 2001 and 2000 and the consolidated condensed statements of cash flows for the nine months ended September 30, 2001 and 2000. These financial statements are the responsibility of the Trust's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States.

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We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of ProLogis Trust and subsidiaries as of December 31, 2000, and in our report dated March 15, 2001, we expressed an unqualified opinion on that statement. In our opinion, the information set forth in the accompanying consolidated condensed balance sheet as of December 31, 2000, is fairly stated in all material respects, in relation to the consolidated balance sheet from which it has been derived.

ARTHUR ANDERSEN LLP

Chicago, Illinois
November 9, 2001

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with ProLogis' Consolidated Condensed Financial Statements and the notes thereto included in Item 1 of this report. See also ProLogis' 2000 Annual Report on Form 10-K.

The statements contained in this discussion that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on current expectations, estimates and projections about the industry and markets in which ProLogis operates, management's beliefs, and assumptions made by management. Words such as "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates", variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that

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are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Factors which may affect outcomes and results include: (i) changes in general economic conditions in ProLogis' markets that could adversely affect demand for ProLogis' facilities and the creditworthiness of ProLogis' customers; (ii) changes in financial markets, interest rates and foreign currency exchange rates that could adversely affect ProLogis' cost of capital and its ability to meet its financial needs and obligations; (iii) increased or unanticipated competition for distribution facilities in ProLogis' target market cities; and (iv) those factors discussed in ProLogis' 2000 Annual Report on Form 10-K.

Results of Operations

Nine Months Ended September 30, 2001 and 2000

ProLogis' net earnings attributable to Common Shares were \$137.5 million for the nine months ended September 30, 2001 as compared to \$113.1 million for the same period in 2000. For the nine months ended September 30, 2001, basic and diluted per share net earnings attributable to Common Shares were \$0.80 and \$0.79 per share, respectively. Basic and diluted per share net earnings attributable to Common Shares were \$0.69 per share for the same period in 2000.

The CDFS business segment provides capital for ProLogis to redeploy into its development activities in addition to generating profits that contribute to ProLogis' total income. ProLogis' net operating income from this segment increased by \$27.5 million in 2001 over 2000, primarily the result of the number of dispositions of facilities developed by ProLogis to entities in which ProLogis maintains an ownership interest, such as ProLogis North American Properties Fund II, ProLogis North American Properties Fund III, ProLogis North American Properties Fund IV and ProLogis European Properties Fund, as well as to third parties. ProLogis' property operations segment net operating income was \$356.4 million for 2001 and \$369.2 million for 2000, a decrease of \$12.8 million. This operating segment's net income includes rental income and net rental expenses from facilities directly owned by ProLogis and also its share of the income of its unconsolidated entities that engage in property operations segment activities. Losses from ProLogis' temperature-controlled distribution operations in 2001 increased from 2000 by \$20.3 million. See "--Property Operations", "-- CDFS Business" and "-- Temperature-Controlled Distribution Operations".

ProLogis' investment in Kingspark S.A., an industrial distribution facility development company in the United Kingdom, was previously accounted for under the equity method. ProLogis included its share of the income from Kingspark S.A. and its subsidiaries in the CDFS business segment. ProLogis owned 100% of the preferred stock of Kingspark S.A. and recognized substantially all economic benefits of Kingspark S.A. and its subsidiaries through January 4, 2001. On January 5, 2001, ProLogis acquired an ownership interest in the common stock of Kingspark S.A. resulting in ProLogis having control of Kingspark S.A. Accordingly, as of January 5, 2001, the accounts of Kingspark S.A. and its subsidiaries are consolidated in ProLogis' condensed financial statements along with ProLogis' other majority-owned and controlled subsidiaries and partnerships.

Property Operations

ProLogis owned or had ownership interests in the following operating facilities as of the dates indicated (square footage in thousands):

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	September 30,			
	2001		2000	
	Number	Square Footage	Number	Square Footage
Direct ownership (1).....	1,220	122,746	1,234	123,977
ProLogis California (2).....	79	13,052	77	12,395
ProLogis North American Properties Fund I (1) (3)....	36	8,963	33	8,024
ProLogis North American Properties Fund II (1) (4)...	27	4,477	3	440
ProLogis North American Properties Fund III (1) (5)...	34	4,380	--	--
ProLogis North American Properties Fund IV (1) (6)...	17	3,475	--	--
ProLogis European Properties Fund and ProLogis European Properties S.a.r.l. (7).....	123	19,236	94	12,494
	<u>1,536</u>	<u>176,329</u>	<u>1,441</u>	<u>157,330</u>
	=====	=====	=====	=====

ProLogis' property operations segment income consists of the: (i) net operating income from the operating facilities that are owned by ProLogis directly or through its consolidated entities, and (ii) the income recognized by ProLogis under the equity method from its investments in unconsolidated entities engaged in property operations. See Note 8 to ProLogis' Consolidated Condensed Financial Statements in Item 1. The amounts recognized under the equity method are based on the net earnings of each unconsolidated entity and include: interest income and interest expense, depreciation and amortization expenses, general and administrative expenses, income taxes and foreign currency exchange gains and losses (with respect to ProLogis European Properties Fund and ProLogis European Properties S.a.r.l.). ProLogis' net operating income from the property operations segment was as follows (in thousands):

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	Nine Months Ended September 30,	
	2001	2000
Facilities directly owned by ProLogis and its consolidated entities:		
Rental income (1).....	\$ 354,066	\$ 362,024
Property operating expenses (2).....	21,655	20,617
	<u>332,411</u>	<u>341,407</u>
Net operating income (3).....		
Income from ProLogis California.....	10,186	9,597
Income from ProLogis North American Properties Fund I (4)....	3,561	1,233
Income from ProLogis North American Properties Fund II (4)...	1,634	308
Income from ProLogis North American Properties Fund III (5)...	582	--
Income from ProLogis North American Properties Fund IV (6)...	(12)	--
Income from ProLogis European Properties Fund (7).....	7,959	8,949

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Income from ProLogis European Properties S.a.r.l. (7).....	36	7,686
	-----	-----
Total property operations segment.....	\$ 356,357	\$ 369,180
	=====	=====

Pre-stable facilities are generally newly developed or acquired facilities that are usually underleased at the time they are completed or acquired. ProLogis, utilizing its ProLogis Operating System(R), has been successful in increasing occupancies on such facilities during their initial months of operation. ProLogis' stabilized operating facilities (facilities owned by ProLogis and its consolidated and unconsolidated entities) were 93.3% occupied and 94.2% leased as of September 30, 2001. ProLogis' stabilized occupancy levels have decreased during the first nine months of 2001 (95.4% occupied and 96.2% leased as of December 31, 2000).

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ProLogis believes that the decrease in its stabilized occupancy levels in 2001 is the result of the current economic conditions in North America which have led to a slowing in customer leasing decisions and in the absorption of new facilities in the market. ProLogis believes that occupancies may continue to decline over the next several quarters. However, ProLogis believes that its global operating platform and the ProLogis Operating System(R) will partially mitigate these occupancy decreases, as they have allowed ProLogis to build strong local market presence and strong customer relationships across many global markets. In Europe, leasing activity has remained constant throughout 2001, with 2.0 million and 6.0 million square feet of leases signed in the three and nine month periods, respectively. ProLogis believes the leasing activity in Europe is currently affected more by a shift in distribution patterns of its customers and the need to reduce distribution costs, rather than by the effects of general economic conditions.

The average increase in rental rates for both new and renewed leases on previously leased space (28.7 million square feet) for all facilities including those owned by ProLogis' consolidated and unconsolidated entities during 2001 was 17.9% (up from 15.5% for all of 2000). During the nine months ended September 30, 2001, the net operating income (rental income less net rental expenses) generated by ProLogis' "same store" portfolio of operating facilities (facilities owned by ProLogis and its consolidated and unconsolidated entities that were in operation throughout both nine month periods in 2001 and 2000) increased by 2.0% over the same period in 2000 (as compared to an increase of 6.57% during the nine months ended September 30, 2000 as compared to the same period in 1999). The decrease in the growth in same store net operating income is due to increased bad debt expense in 2001 and to lower occupancy levels in the same store portfolio in 2001 as compared to 2000. During the three months ended September 30, 2001, the same store net operating income increased by 0.7% over the same period in 2000 (as compared to an increase of 6.02% during the three months ended September 30, 2000 as compared to the same period in 1999). Although the average increase in rental rates for new and renewed leases was 18.1% for ProLogis' same store operating portfolio in 2001, only 18.2 million square feet (of a total of 144.7 million square feet) were signed during the nine months of 2001. Therefore, the rental rate growth did not have a significant effect on same store net operating income.

CDFS Business

Net operating income from ProLogis' CDFS business segment consists primarily of: (i) profits from the disposition of land parcels and facilities that were developed by ProLogis and disposed of to customers or to entities in which ProLogis has an ownership interest; (ii) development fees earned by ProLogis; (iii) income recognized under the equity method from investments in

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the Kingspark Joint Ventures; and (iv) income recognized under the equity method from ProLogis' investment in the Kingspark S.A. and its subsidiaries in 2000 (Kingspark S.A. and its subsidiaries are consolidated in 2001). Kingspark S.A. and its subsidiaries engage in CDFS business activities in the United Kingdom similar to those activities performed directly by ProLogis in other locations. In 2000, ProLogis recognized 95% of the net earnings of Kingspark S.A. and its subsidiaries under the equity method that includes: interest income and interest expense (net of capitalized amounts), general and administrative expense (net of capitalized amounts), income taxes and foreign currency exchange gains and losses.

The CDFS business segment income increased for the nine months in 2001 over the same period in 2000, due to an increase in sales volume. The CDFS business segment's net operating income is comprised of the following (in thousands):

	Nine Months Ended September 30,	
	2001	2000
	-----	-----
Net gains on disposition of land parcels and facilities developed (1).....	\$ 102,768	\$ 60,615
Development fees and other, net.....	5,670	2,842
Income from Kingspark Joint Ventures.....	1,753	--
Income from Kingspark S.A. and its subsidiaries (2).....	--	20,411
Miscellaneous income.....	3,301	2,257
Other expenses (3).....	(2,773)	(2,884)
	-----	-----
	\$ 110,719	\$ 83,241
	=====	=====

Temperature-Controlled Distribution Operations

ProLogis recognizes net operating income from the temperature-controlled distribution operations segment of its business under the equity method. ProLogis' share of the total income or loss of CSI/Frigo LLC, ProLogis Logistics and Frigoscandia S.A. was as follows (in thousands) (see Notes 3 and 8 to ProLogis' Consolidated Condensed Financial Statements in Item 1):

	Nine Months Ended September 30,	
	2001	2000
	-----	-----
Loss from CSI/Frigo LLC.....	\$ (1,343)	\$ --
Income (loss) from ProLogis Logistics.....	(3,636)	8,067
Loss from Frigoscandia S.A.....	(18,061)	(10,806)
	-----	-----
Total temperature-controlled distribution operations segment.....	\$ (23,040)	\$ (2,739)
	=====	=====

Amounts recognized under the equity method from CSI/Frigo LLC include ProLogis' share of this entity's share of the income or loss of ProLogis

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Logistics and Frigoscandia S.A. Amounts recognized under the equity method for ProLogis Logistics and Frigoscandia S.A. include interest income and interest expense, depreciation and amortization expense, general and administrative expense, income taxes and foreign currency exchange gains and losses (with respect to Frigoscandia). ProLogis recognizes in excess of 99% the net earnings of each entity in 2001 as compared to 95% in 2000.

CSI's operating capacity was comparable in both nine-month periods. The decrease in ProLogis' share of ProLogis Logistics' net earnings from 2000 to 2001 of \$11.7 million is attributable to: (i) higher interest expense as a result of increasing external debt of this entity by \$125.0 million and using the proceeds to repay debt to ProLogis, and (ii) a decrease in operating income as a result of lower occupancy levels in certain markets in 2001.

Frigoscandia's operating capacity was 171.5 million cubic feet as of September 30, 2001 and 192.1 million cubic feet as of September 30, 2000. The decrease reflects the disposition of the directly owned facilities in Germany and the Czech Republic in May 2001 and September 2001, respectively. ProLogis' share of Frigoscandia S.A.'s net losses includes net foreign currency exchange losses of \$7.9 million and net foreign currency exchange gains of \$1.1 million in 2001 and 2000, respectively. Excluding these foreign currency exchange gains and losses, ProLogis recognized \$1.7 million more income under the equity method in 2001 than it recognized in 2000 from its investment in Frigoscandia S.A. The increase in Frigoscandia S.A.'s net loss in 2001 from the loss recognized in 2000 is primarily attributable to lower general and administrative expense in 2001 as compared to 2000, offset by a net loss recognized on the disposal of Frigoscandia's directly owned facilities located in Germany and the Czech Republic of approximately \$3.9 million. The disposition of these facilities was completed as the mix of facilities and customers no longer met ProLogis' strategic objective in this business segment, which is to concentrate on the distribution and logistics part of the supply chain rather than on storage. ProLogis is continuing to evaluate its temperature-controlled distribution operations in light of this strategic objective.

ProLogis believes that the factors that contributed to the decline in operating performance of CSI and Frigoscandia are temporary and can be partially mitigated in the short-term by reductions in general and administrative costs and other operating costs. However, there is no assurance that these factors are temporary or that some or all of these factors will not continue past 2001.

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Other Income and Expense Items

Income from Unconsolidated Entities

Income from unconsolidated entities that is not directly attributable to either of ProLogis' three business segments was \$3.5 million for the nine months ended September 30, 2001. See Note 8 to ProLogis' Consolidated Condensed Financial Statements in Item 1. This income is primarily fees earned for the non-exclusive use of the ProLogis Operating System(R) under license agreements with Vizional Technologies (\$1.5 million recognized in each of the first and second quarters) and Phatpipe (\$0.7 million, all recognized in the first quarter) offset by losses recognized under the equity method related to ProLogis's investment in ProLogis Equipment Services (\$0.2 million, all recognized in the second quarter). License fee income from PhatPipe was

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recognized only in the first quarter of 2001 as this investment was written down to zero in the second quarter of 2001 (see "--Loss on Investment"). ProLogis recognized license fee income from Vizional Technologies only for the first six months of 2001, as ProLogis is monitoring this investment in light of the current economy's effects on the technology industry and on Vizional Technologies' business plan.

For the nine months ended September 30, 2000, ProLogis recognized fees under license agreements with Vizional Technologies of \$1.2 million, all in the third quarter.

Interest Expense

Interest expense is a function of the level of borrowings outstanding and interest rates charged on borrowings, offset by interest capitalization with respect to development activities. Interest expense was \$115.2 million in 2001 and \$128.5 million in 2000 (\$120.6 million assuming ProLogis had consolidated the financial statements of Kingspark S.A. and its subsidiaries in 2000). Assuming consolidation for 2000 reduces the total interest expense in 2000 due to the effects of interest capitalization by Kingspark S.A. and its subsidiaries.

Capitalized interest was \$26.6 million in 2001 and \$12.8 million in 2000 (\$20.9 million assuming ProLogis had consolidated the financial statements of Kingspark S.A. and its subsidiaries in 2000). Capitalized interest levels are reflective of ProLogis' cost of funds and the level of development activity in each year.

Gain on Disposition of Real Estate

Gain on disposition of real estate represents the net gains or losses from the disposition of operating facilities that were acquired or developed within the property operations segment. Generally, ProLogis disposes of facilities in the property operations segment because such facilities are considered to be non-strategic facilities or to complement the portfolio of developed facilities that are acquired by entities in which ProLogis maintains an ownership interest. Non-strategic facilities are assets located in markets or submarkets that are no longer considered target markets as well as assets that were acquired as part of previous portfolio acquisitions that are not consistent with ProLogis' core portfolio based on the asset's size or configuration.

Property operations segment dispositions were as follows:

- o 2001: 4.7 million square feet; \$180.9 million of proceeds; net gain of \$0.4 million (a net loss of \$1.7 million was recognized in the first quarter, a net loss of \$1.4 million was recognized in the second quarter and a net gain of \$3.5 million was recognized in the third quarter) and a net gain of \$0.5 million recognized upon the contribution of ProLogis' 49.9% investment in the common stock of ProLogis European Properties S.a.r.l. to ProLogis European Properties Fund in January 2001; and
- o 2000: 3.5 million square feet; \$133.7 million of proceeds; net gains of \$1.0 million (a net gain of \$5.1 million was recognized in the first quarter, a net loss of \$4.8 million was recognized in the second quarter and a net gain of \$0.7 million was recognized in the third quarter).

Loss on Investment

During the second quarter of 2001, ProLogis recognized an impairment adjustment of \$7.5 million, representing the write-down of its entire investment in Phatpipe. See Note 3 to ProLogis' Consolidated Condensed Financial Statements in Item 3.

Foreign Currency Exchange Losses

ProLogis recognized net foreign currency exchange losses of \$4.6 million and \$20.4 million for 2001 and 2000, respectively. Foreign currency exchange gains and losses are primarily the result of the remeasurement and settlement of intercompany debt and the remeasurement of third party debt of ProLogis' foreign subsidiaries. Fluctuations in the foreign currency exchange gains and losses recognized in each period are a product of movements in certain foreign currency exchange rates, primarily the euro and the pound sterling and the level of intercompany and third party debt outstanding that is denominated in currencies other than the U.S. dollar.

Income Taxes

ProLogis is taxed as a REIT for federal income tax purposes and is not required to pay federal income taxes if minimum distribution and income, asset and shareholder tests are met. ProLogis Development Services is not a qualified REIT subsidiary for tax purposes. Also, the foreign countries in which ProLogis operates do not recognize REITs under their respective tax laws. Accordingly, ProLogis recognizes income taxes as appropriate and in accordance with GAAP with respect to the taxable earnings of ProLogis Development Services and its foreign subsidiaries.

Current income tax expense recognized in 2001 and 2000 was \$4.8 million and \$1.1 million, respectively (in 2000 current income tax would have been \$1.3 million assuming ProLogis had consolidated the financial statements of Kingspark S.A. and its subsidiaries). Current income tax expense is higher in 2001 primarily due to the increased level of income recognized by ProLogis' taxable subsidiaries in the CDFS business segment. Deferred income tax expense was \$1.1 million and \$1.7 million in 2001 and 2000, respectively (\$4.3 million assuming ProLogis had consolidated the financial statements of Kingspark S.A. and its subsidiaries in 2000). ProLogis' deferred tax component of total income taxes is a function of each year's temporary differences (items that are treated differently for tax purposes than for book purposes) as well as the need for a deferred tax valuation allowance to adjust certain deferred tax assets (primarily deferred tax assets created by tax net operating losses) to their estimated realizable value.

Three Months Ended September 30, 2001 and 2000

The changes in net earnings attributable to Common Shares and its components for the three months ended September 30, 2001 compared to the three months ended September 30, 2000 are similar to the changes for the nine month periods ended on the same dates and the three-month period changes are attributable to the same reasons discussed under "--Nine Months Ended September 20, 2001 and 2000" except as specifically discussed under "--Property

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Operations", "Income from Unconsolidated Entities", "--Gain on Disposition of Real Estate" and "--Loss on Investment".

Environmental Matters

ProLogis has not experienced any environmental condition on its facilities, which materially adversely affected its results of operations or financial position nor is ProLogis aware of any environmental liability that ProLogis believes would have a material adverse effect on its business, financial condition or results of operations.

Liquidity and Capital Resources

Overview

ProLogis considers its liquidity and ability to generate cash from operations as well as its financing capabilities (including proceeds from the disposition of facilities) to be adequate and ProLogis expects to be able to continue to meet its anticipated development, acquisition, operating and debt service needs as well as its shareholder distribution requirements.

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ProLogis' future investing activities are expected to consist of: (i) acquisitions of existing facilities in key distribution markets in the property operations segment and (ii) the acquisition of land for future development and the development of distribution facilities in the CDFS business segment for future disposition to entities in which ProLogis maintains an ownership interest or to third parties. ProLogis' future investing activities are expected to be primarily funded with:

- o cash generated by operations;
- o the proceeds from the disposition of facilities developed by ProLogis to third parties;
- o the proceeds from the disposition of facilities to entities in which ProLogis maintains an ownership interest, such as ProLogis European Properties Fund or other real estate distribution entities that may be formed in the future; and
- o utilization of ProLogis' U. S. dollar denominated and multi-currency revolving credit facilities.

In the short-term, borrowings on and subsequent repayments of ProLogis' unsecured revolving credit facilities will provide ProLogis with adequate liquidity and financial flexibility to efficiently respond to market opportunities. As of November 9, 2001, on a combined basis, ProLogis had approximately \$320.4 million of short-term borrowings outstanding resulting in additional short-term borrowing capacity available of \$609.0 million. ProLogis will continue to evaluate the public debt markets with the objective of

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reducing its short-term borrowings and extending debt maturities on favorable terms.

Cash Operating Activities

Net cash provided by operating activities for the nine months ended September 30, 2001 and 2000 was \$325.8 million and \$286.4 million, respectively. See "--Results of Operations -- Property Operations". Cash provided by operating activities exceeded the cash distributions paid on Common Shares in 2001 and 2000. See ProLogis's Consolidated Condensed Statements of Cash Flows in Item 1.

Cash Investing and Cash Financing Activities

In 2001, ProLogis' investing activities provided net cash of \$220.6 million and financing activities used net cash of \$517.0 million. Proceeds received from the dispositions of real estate and the repayments of loans by and distributions received from ProLogis' unconsolidated entities were used to fund real estate investments and repay borrowings on ProLogis' lines of credit. In 2000, ProLogis used net cash of \$153.4 million in its investing activities and \$58.5 million in its financing activities. Investing activities in 2000 were primarily funded by lines of credit borrowings and proceeds from dispositions of real estate. See ProLogis' Consolidated Condensed Statements of Cash Flows in Item 1.

ProLogis Logistics and ProLogis Development Services may also borrow under the \$500.0 million credit agreement, with such borrowings guaranteed by ProLogis. As of September 30, 2001, ProLogis Logistics, an unconsolidated entity, had borrowed \$125.0 million under the credit agreement and ProLogis Development Services had no borrowings under the credit agreement.

Commitments

As of September 30, 2001, ProLogis had letters of intent or contingent contracts, subject to ProLogis' final due diligence, for the acquisition of 3.1 million square feet of operating facilities at an estimated acquisition cost of \$109.0 million. The foregoing transactions are subject to a number of conditions, and ProLogis cannot predict with certainty that they will be consummated. ProLogis has sufficient funds escrowed as the result of tax-deferred exchange transactions to acquire these assets. In addition, as of September 30, 2001, ProLogis had \$777.4 million of budgeted development costs for developments in process, of which \$411.8 million was unfunded.

On January 11, 2001, ProLogis announced a Common Share repurchase program under which it may repurchase up to \$100.0 million of its Common Shares. The Common Shares will be repurchased from time to time in the open market and in privately negotiated transactions, depending on market prices and other conditions. As of September 30, 2001, 778,400 Common Shares had been repurchased at a total cost of \$16.0 million.

ProLogis has entered into a subscription agreement to make additional capital contributions to ProLogis European Properties Fund of 74.2 million euros

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(the currency equivalent of approximately \$67.9 million as of September 30, 2001) through 2002.

As of September 30, 2001, ProLogis Logistics had \$90.0 million of direct borrowings outstanding under a credit agreement that has been guaranteed by ProLogis.

Frigoscandia AB has a credit agreement under which 171.0 million euros (the currency equivalent of approximately \$156.3 million as of September 31, 2001) is outstanding. All of the borrowings outstanding have been guaranteed by ProLogis. The agreement has been extended until December 28, 2001.

As of September 30, 2001, ProLogis North American Properties Fund IV had \$103.0 million of short-term borrowings outstanding under an agreement that matures on December 21, 2001. The agreement provides for a 46-day extension at ProLogis North American Properties Fund IV's option. ProLogis North American Properties Fund IV intends to obtain permanent secured financing which will be used to repay these short-term borrowings. ProLogis has guaranteed the entire amount outstanding.

ProLogis has guaranteed a 30.0 million French franc (the currency equivalent of approximately \$4.2 million as of September 30, 2001) unsecured loan outstanding of ProLogis European Properties Fund.

Distribution and Dividend Requirements

ProLogis' current distribution policy is to pay quarterly distributions to shareholders based upon what it considers to be a reasonable percentage of cash flow and at the level that will allow ProLogis to continue to qualify as a REIT for tax purposes. Because depreciation is a non-cash expense, cash flow typically will be greater than earnings from operations and net earnings. Therefore, annual distributions are expected to be consistently higher than annual earnings.

On February 23, 2001, May 25, 2001 and August 24, 2001, ProLogis paid a quarterly distribution of \$0.345 per Common Share to shareholders of record on February 9, 2001, May 14, 2001 and August 10, 2001, respectively. The distribution level for 2001 was set by ProLogis' Board of Trustees in December 2000 at \$1.38 per Common Share.

The annual dividend rates on ProLogis' preferred shares are \$4.27 per Series C cumulative redeemable preferred share, \$1.98 per Series D cumulative redeemable preferred share and \$2.1875 per Series E cumulative redeemable preferred share.

On January 31, 2001, April 30, 2001 and July 31, 2001 ProLogis paid quarterly dividends of \$0.5469 per Series E cumulative redeemable preferred share. On March 30, 2001, ProLogis paid quarterly dividends of \$0.5875 per Series A cumulative redeemable preferred share. On March 30, 2001, June 29, 2001 and September 28, 2001, ProLogis paid quarterly dividends of \$1.0675 per Series C cumulative redeemable preferred share and \$0.495 per Series D cumulative redeemable preferred share.

Pursuant to the terms of its preferred shares, ProLogis is restricted from declaring or paying any distribution with respect to the Common Shares unless and until all cumulative dividends with respect to the Preferred Shares have been paid and sufficient funds have been set aside for dividends for the then current dividend period with respect to the preferred shares.

Funds from Operations

Funds from operations attributable to Common Shares increased \$23.3 million

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to \$302.6 million for 2001 from \$279.3 million for 2000.

Funds from operations does not represent net income or cash from operating activities in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs, which is presented in the Consolidated Condensed Statements of Cash Flows in Item 1. Funds from operations should not be considered as an alternative to net income as an indicator of ProLogis' operating performance or as an alternative to cash flows from operating, investing or financing activities as a measure of liquidity. Additionally, the funds from operations measure presented by ProLogis will not necessarily be comparable to similarly titled measures of other REITs. ProLogis considers funds from operations to be a useful supplemental measure of comparative period operating performance and as a supplemental measure to provide management, financial analysts, potential investors and shareholders with an indication of ProLogis' ability to fund its capital expenditures and investment activities and to fund other cash needs.

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Funds from operations is defined by the National Association of Real Estate Investment Trusts ("NAREIT") generally as net income (computed in accordance with GAAP), excluding real estate related depreciation and amortization, gains and losses from sales of properties, except those gains and losses from sales of properties upon completion or stabilization under pre-sale agreements and after adjustments for unconsolidated entities to reflect their funds from operations on the same basis. ProLogis includes gains and losses from the disposition of its CDFS business segment assets in funds from operations.

Funds from operations, as used by ProLogis, is modified from the NAREIT definition. ProLogis' funds from operations measure does not include: (i) deferred income tax benefits and deferred income tax expenses of ProLogis' taxable subsidiaries; (ii) foreign currency exchange gains and losses resulting from debt transactions between ProLogis and its consolidated and unconsolidated entities; (iii) foreign currency exchange gains and losses from the remeasurement (based on current foreign currency exchange rates) of third party debt of ProLogis' foreign consolidated and unconsolidated entities; and (iv) mark to market adjustments related to derivative financial instruments utilized to manage ProLogis' foreign currency risks. These adjustments to the NAREIT definition are made to reflect ProLogis' funds from operations on a comparable basis with the other REITs that do not engage in the types of transactions that give rise to these items.

Funds from operations is as follows (in thousands):

	Nine Months Ended September 30,	
	2001	2000
Net earnings attributable to Common Shares.....	\$ 137,470	\$ 113,146
Add (Deduct):		
Real estate related depreciation and amortization.....	104,350	109,238
Gain (loss) on disposition of non-CDFS business segment assets.....	(863)	(1,009)
Foreign currency exchange losses, net.....	3,476	21,622

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Deferred income tax expense.....	1,096	1,702
ProLogis' share of reconciling items of unconsolidated entities:		
Real estate related depreciation and amortization.....	47,463	43,709
Loss on disposition of non-CDFS business segment assets.....	3,965	(357)
Foreign currency exchange gains, net.....	10,363	(4,589)
Deferred income tax expense benefit.....	(4,755)	(4,204)
	-----	-----
Funds from operations attributable to Common Shares.....	\$ 302,565	\$ 279,258
	=====	=====

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

As of September 30, 2001, no significant change had occurred in ProLogis' interest rate risk or foreign currency risk as discussed in ProLogis' 2000 Annual Report on Form 10-K.

PART II

Item 4. Submission of Matters to Vote of Securities Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

- 4.1 Third Amendment to Rights Agreement, dated as of December 31, 1993, between ProLogis and Fleet National Bank, as Rights Agent, to amend the agreement and appoint EquiServe Trust Company, N.A.
- 12.1 Computation of Ratio of Earnings to Fixed Charges
- 12.2 Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Share Dividends
- 15.1 Letter from Arthur Andersen LLP regarding unaudited financial information dated November 9, 2001

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(b) Reports on Form 8-K:

Date	Items Reported	Financial Statements
July 10, 2001	5	No

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PROLOGIS TRUST

BY: /S/ WALTER C. RAKOWICH

Walter C. Rakowich
Managing Director and
Chief Financial Officer
(Principal Financial Officer)

BY: /S/ LUKE A. LANDS

Luke A. Lands
Senior Vice President and Controller

BY: /S/ SHARI J. JONES

Shari J. Jones
Vice President
(Principal Accounting Officer)

Date: November 13, 2001

