

Logistics Real Estate Conditions Still Tight in Most Markets



Key Points:

- 1. The IBI Activity Index has been within a normal expansionary range of 56-60 since May 2023, hitting the high end of the range at 60.3 in January 2024** as robust retail sales and restocking increased activity in U.S. warehouses.
- 2. Higher completions increased availabilities, particularly for bulk space in a handful of markets.** Because groundbreakings of logistics buildings fell by two-thirds from peak levels, deliveries are poised to contract sharply beginning in H2 2024.
- 3. U.S. rents grew by 6% in 2023**, with declines in Southern California countering high single-digit to mid-teens growth in most markets. Rents climbed at the quickest pace in the Sun Belt and Southeast.

Realized demand increased in Q4. U.S. net absorption increased 31% quarter-over-quarter (q/q) in Q4 to 52 million square feet (MSF), in line with historical expansionary averages. Looking ahead, rising proposal activity and quickening deal gestation times suggest increasing demand for space, and leading indicators align with an annualized demand run rate of about 200 MSF.

The IBI utilization rate increased to 84.3% in January after averaging 83.8% in Q4 2023. Strong retail sales for the holidays depleted inventories, pulling the inventories to sales ratio (I/S ratio) downward through year-end 2023 and emptying warehouse racks. From June to November, the I/S ratio fell by 60 bps, approximately 60% due to strong retail sales and 40% due to reduced inventories.

Building completions reached a new quarterly high of 141 MSF in Q4. New supply was concentrated in larger spaces in the outlying submarkets of major inland markets, including Dallas, Houston, Atlanta and Phoenix. New supply was the primary driver of increased availabilities, particularly in bulk spaces. Vacancy in spaces over 300,000 square feet rose 100 bps q/q to 7.9% in Q4, and vacancy rose 40 bps q/q to 5% in smaller spaces.

Project starts continued to fall, confirming a cliff for new deliveries in late 2024. In Q4, starts were more than 25% below pre-COVID levels, falling more than two-thirds from the peak.

Rents continued to increase outside of a few pockets, totaling 6% for 2023. Rents climbed in Q4 throughout the U.S., except for select port-connected markets that saw rents surge in 2021 and 2022. The fastest-growing rents were in the southern part of the U.S., including double-digit annual growth in Phoenix, Las Vegas, Austin, and major Florida and North Carolina markets.

Conclusion

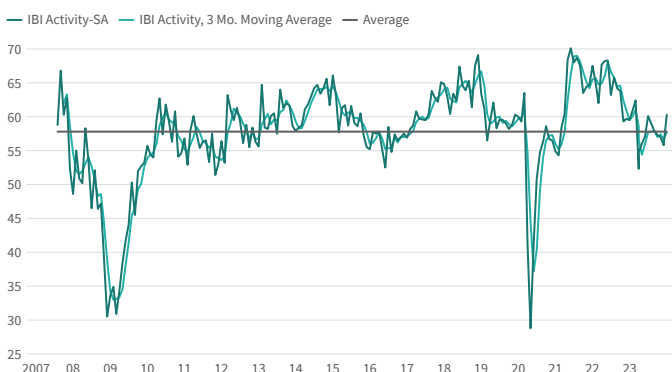
The U.S. market absorbed record new deliveries while demand steadied around pre-pandemic averages. While many customers continued to increase their footprints in 2023, economic uncertainty and a high cost of capital caused others to delay real estate decision-making into 2024. As a result, we expect demand to increase in 2024, colliding with a sharp fall in new supply.

Therefore, **the window for customers to act on increased availabilities in select locations could be brief.** Scarcity is likely to return to many locations in the latter part of 2024, applying upward pressure on rents and rewarding those who plan for upcoming requirements.

Exhibit 1

IBI ACTIVITY INDEX

Index, 50 = neutral, seasonally adjusted

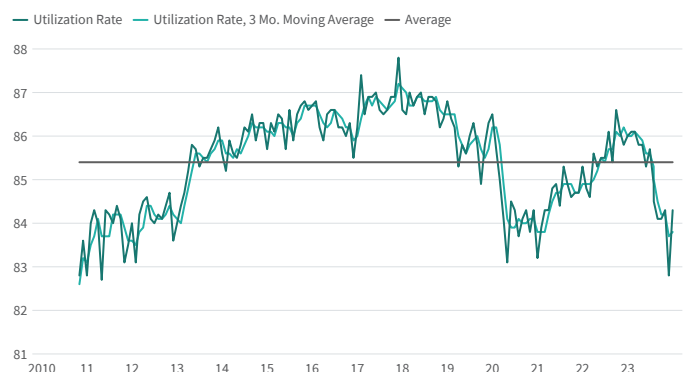


Source: Prologis Research.

Exhibit 2

UTILIZATION RATE

%, seasonally adjusted



Source: Prologis Research.

Exhibit 3

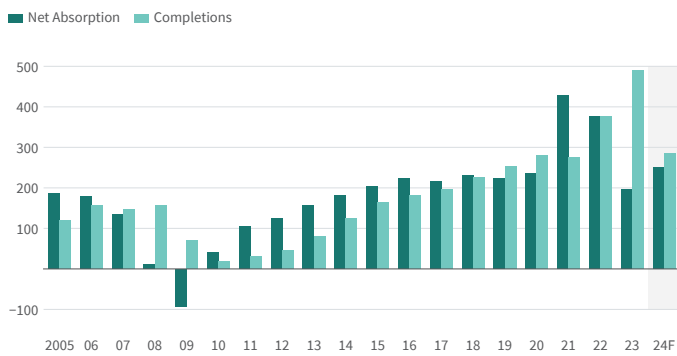
SUMMARY OF NET ABSORPTION INDICATORS

	LATEST READING	AS OF	NET ABSORPTION, MSF		REGRESSION FIT (R-sqr)
			Quarterly	Annualized	
IBI-Activity	60.3	Jan 2023	53	211	0.84
Weighted Average of Econ Variables			45	179	
PMI (non-mfg)	51.7	Dec 2023	35	142	0.78
Jobs (private)	115	Dec 2023	48	191	0.69
Core Retail Sales	3.5%	Dec 2023	45	180	0.71
Inventories	106.9	3Q 2023	52	209	0.67

Note: Values are a 3-month trailing average, except Inventories.
 Source: Institute for Supply Management, Bureau of Economic Analysis, U.S. Census, Bureau of Labor Statistics, Prologis Research.

Exhibit 4

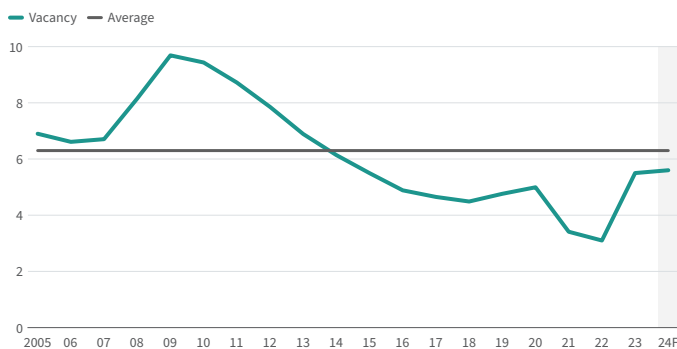
MARKET FUNDAMENTALS, U.S. MSF



Source: CBRE, JLL, Cushman & Wakefield, Colliers, CoStar, CBRE-EA, Prologis Research.

Exhibit 5

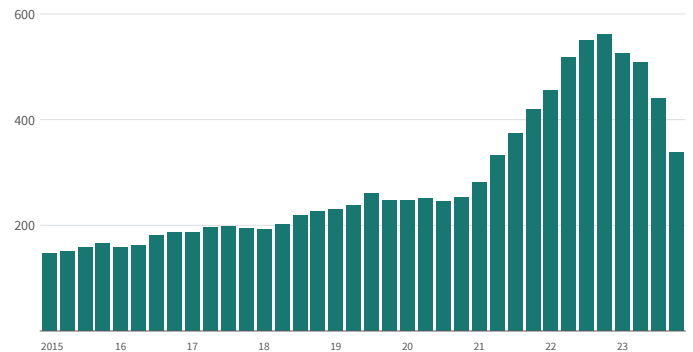
VACANCY, U.S. %



Source: CBRE, JLL, Cushman & Wakefield, Colliers, CoStar, CBRE-EA, Prologis Research.

Exhibit 6

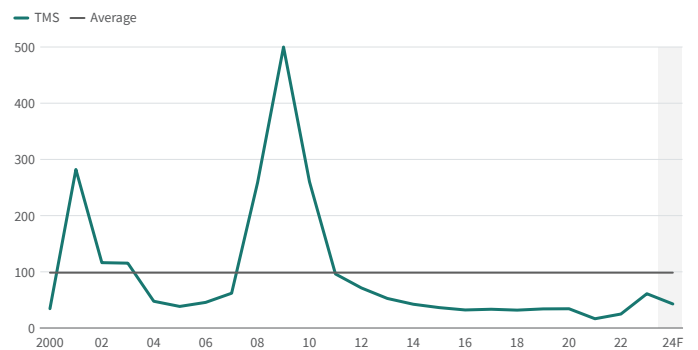
UNDER CONSTRUCTION, U.S. INDUSTRIAL MSF



Source: CBRE, JLL, Cushman & Wakefield, Colliers, CoStar, CBRE-EA, Prologis Research.

Exhibit 7

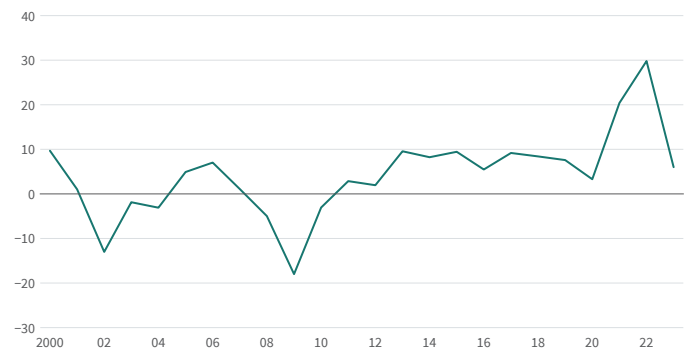
U.S. TRUE MONTHS SUPPLY Months



Source: CBRE, JLL, Cushman & Wakefield, Colliers, CoStar, CBRE-EA, Prologis Research.

Exhibit 8

U.S. RENT GROWTH % y/y



Source: CBRE, JLL, Cushman & Wakefield, Colliers, CoStar, CBRE-EA, Prologis Research.

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Prologis' Research department studies fundamental and investment trends and Prologis' customers' needs to assist in identifying opportunities and avoiding risk across four continents. The team contributes to investment decisions and long-term strategic initiatives, in addition to publishing white papers and other research reports. Prologis publishes research on the market dynamics impacting Prologis' customers' businesses, including global supply chain issues and developments in the logistics and real estate industries. Prologis' dedicated research team works collaboratively with all company departments to help guide Prologis' market entry, expansion, acquisition and development strategies.

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