

Pace of growth becoming more sustainable



Prologis Rialto I-210 Distribution Center, Rialto, California.

Select IBI takeaways:

1. Competition for limited available space continued in the U.S. The vacancy rate was low at 3.1% in Q3, up 10 bps from the prior quarter.^{1,2} Rents increased 6.2% q/q.³
2. More supply is coming online. Supply that was stuck in the pipeline is finally delivering with 105 MSF of new supply in Q3, up 25 MSF from the prior quarter.
3. The Industrial Business Indicator (IBI™) showed resiliency amid broader bearish macroeconomic news.⁴ Activity was 60.2 in October, above the historical average, and utilization rose to 86%.

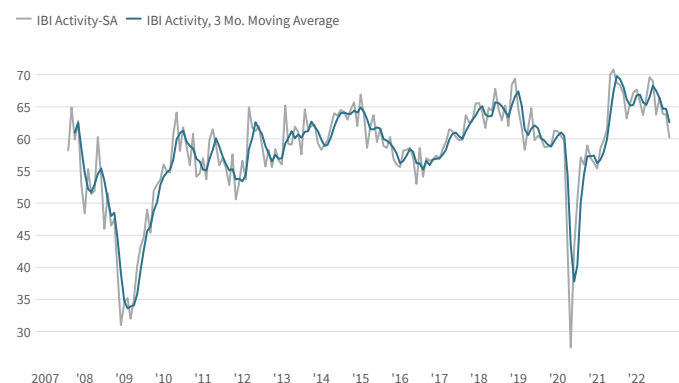
Recent data suggests imports and retail sales growth are slowing, which would impact the flow of goods through U.S. facilities. Even with these trends, IBI activity showed resiliency by staying above average but has continued to soften moderately. IBI activity decreased 620 bps from the second quarter to 60.2 in October. Logistics users continued to expand their networks and absorbed 90 MSF of space in Q3, which is on par with absorption from the prior quarter.

Utilization of space increased as inventory build continued. Another driver is the lack of new supply and low vacancy that hinders expansion into new space. The utilization rate held steady at 86% through October, up 40 bps from the second quarter. The functional ceiling for utilization is in the 86-87% range.

Exhibit 1

IBI ACTIVITY INDEX

Index, 50 = neutral, seasonally adjusted

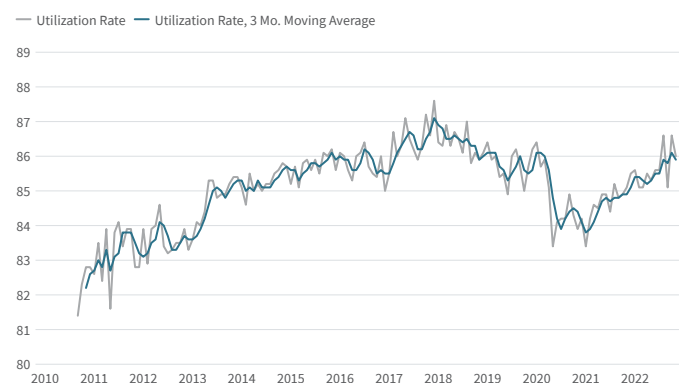


Source: Prologis Research.

Exhibit 2

UTILIZATION RATE

%, seasonally adjusted



Source: Prologis Research.

Developers continued to break ground, even with capital markets in flux. Development commitments made earlier in the year and, in some cases, ownership of lower cost-basis land spurred more development. Construction starts reached a record high of 142 MSF in Q3, pushing the construction pipeline to 550 MSF. As the cost of capital continues to rise, development activity may slow in coming quarters.

True months of supply (TMS), the amount of time it would take to absorb all available supply, was low at 21.8 months, up slightly from 18.9 in Q2. A rising TMS for a consecutive quarter may reflect that some markets are on track to become less competitive as leasing options are increasing, signaling an easing of rent growth because the two indicators are highly correlated. TMS will likely continue to grow in lower-barrier locations with large pipelines, such as Dallas, Phoenix and Indianapolis. Markets where TMS will likely remain lower for longer include Inland Empire, Las Vegas, Lehigh Valley and New York/New Jersey.

Market conditions are expected to remain tight through the rest of the year. Our forecast calls for 370 MSF of net absorption, outpaced slightly by deliveries at 385 MSF. The vacancy rate is expected to remain tight at 3.3%. Even if TMS climbs further, it should not eclipse the mid-20-month range. Given these expectations and robust year-to-date rent growth, Prologis Research adjusted the full-year 2022 rent growth forecast up 300 bps to 28%.

Looking ahead into 2023, leasing momentum is expected to normalize from the frenzied tempo of recent years.

The pace of decision-making has already slowed and is not expected to reaccelerate due to greater economic uncertainty.

Exhibit 3

SUMMARY OF NET ABSORPTION INDICATORS

	LATEST READING	AS OF	EST. NET ABSORPTION, MSF		REGRESSION FIT (R-sqr)
			Quarterly	Annualized	
IBI-Activity	62.6	Oct 2022	81	324	0.84
Weighted Average of Econ Variables			76	304	
PMI (non-mfg)	56.8	Sep 2022	70	282	0.75
Jobs (private)	284	Sep 2022	77	310	0.63
Core Retail Sales	7.4%	Sep 2022	77	307	0.67
Inventories	145.4	2Q 2022	80	321	0.61

Note: Values are a 3-month trailing average, except inventories. Stock, absorption, completions, under construction and vacancy fundamentals now represent a narrowed 31 markets to reflect where Prologis has a presence.

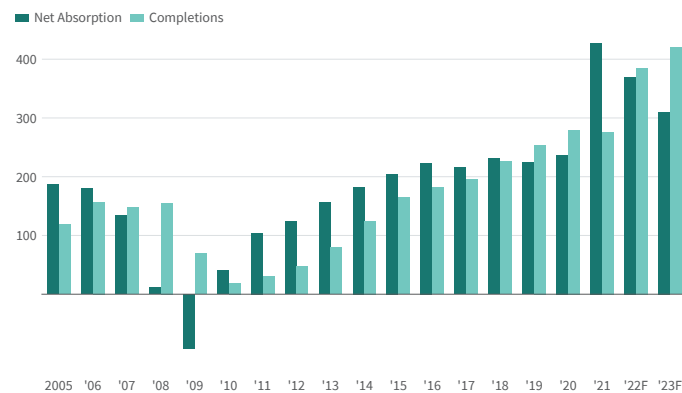
Source: Institute for Supply Management, Bureau of Economic Analysis, U.S. Census, Bureau of Labor Statistics, Prologis Research.

At the same time, users will have more options as the construction pipeline empties. Compared with 2022, Prologis Research expects more deliveries and slightly lower net absorption, roughly in line with the annual demand run rate at the current level of IBI activity. The vacancy rate is expected to expand. Market rent growth is expected to outpace inflation, and TMS is expected to rise. Taken together, competition may ease in some places, but planning will be pivotal in key locations where options should continue to be limited.

1. CBRE, JLL, Cushman & Wakefield, Colliers, CoStar, CBRE-EA, Prologis Research
2. Our historical and forecasted stock, net absorption, completions, under construction, and vacancy fundamentals now represent 31 markets to reflect where Prologis has a presence.
3. Prologis Research
4. Prologis' proprietary survey of customer activity and facility utilization

Exhibit 4

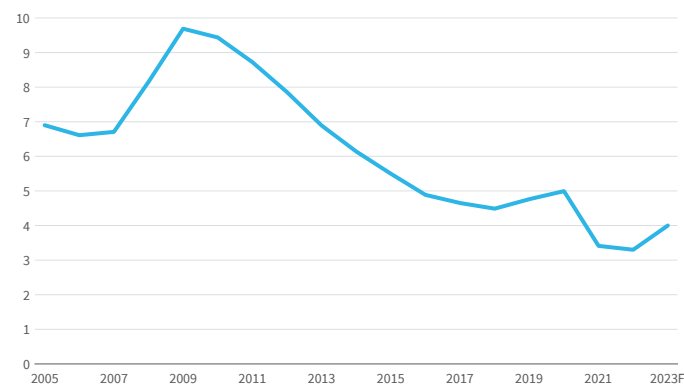
MARKET FUNDAMENTALS, U.S. MSF



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

Exhibit 5

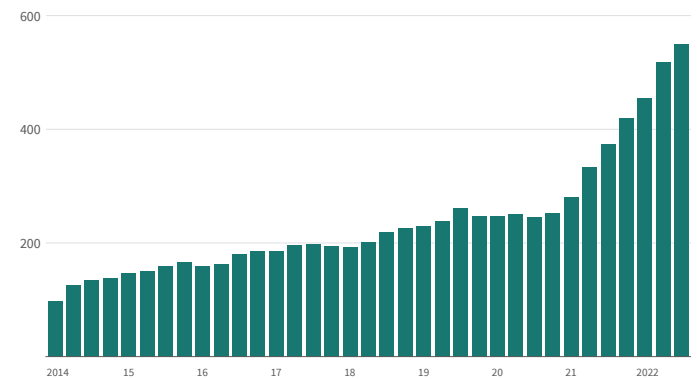
VACANCY, U.S. %



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

Exhibit 6

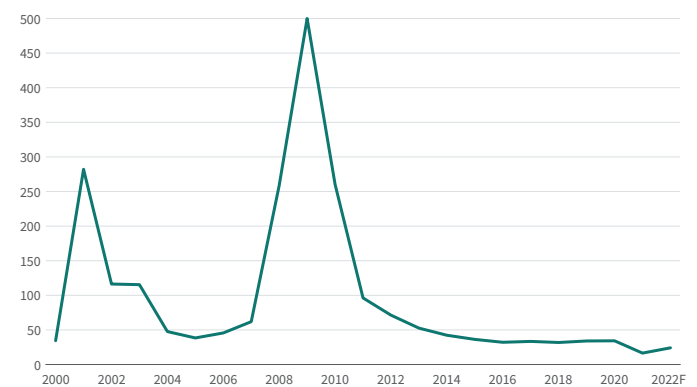
UNDER CONSTRUCTION, U.S. INDUSTRIAL MSF



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

Exhibit 7

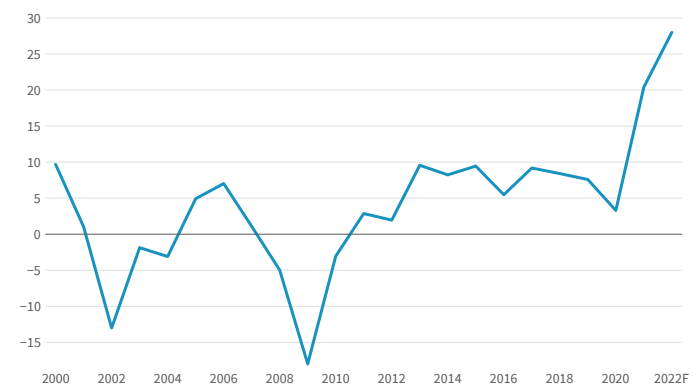
U.S. TMS months



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

Exhibit 8

U.S. RENT GROWTH %, y/y



Source: Prologis Research.

Forward-Looking Statements

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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.

About Prologis

Prologis, Inc. is the global leader in logistics real estate with a focus on high-barrier, high-growth markets. As of September 30, 2022, the company owned or had investments in, on a wholly owned basis or through co-investment ventures, properties and development projects expected to total approximately 1.0 billion square feet (97 million square meters) in 19 countries. Prologis leases modern logistics facilities to a diverse base of approximately 5,800 customers principally across two major categories: business-to-business and retail/online fulfillment.