

IBI Activity Shows Growth in the Goods Economy



Prologis Vernon Business Center, Vernon, California

Key Takeaways:

- 1. The July Industrial Business Indicator (IBI) reading reflected a better-than-expected goods economy as a majority of logistics users reported an increase in the flow of goods through U.S. facilities.** The IBI increased in Q2 2023 (62.3 in July) as users saw an increase in the flow of goods. Utilization on average remained in the sweet spot of 85% to 86% during the second quarter, indicating a lack of shadow space in facilities.
- 2. The pace of rent growth is gradually returning to pre-pandemic levels** with market rents up 2% in Q2 and a projected growth of 7% to 9% for the year. Leases will be subject to substantial repricing upon expiration through the near term as consecutive years of double-digit rent growth led to more than 100% markups in some markets.
- 3. A rapid fall in new construction starts points to fewer availabilities in 2024.** New development starts dropped another 12% in Q2 2023. As a result, Prologis Research expects the vacancy rate to peak at 4.6% in Q4 2023 before falling to 4% by year-end 2024.

Deeper Dive:

Competition for space appears to be normalizing.

Customers continued to expand across markets, but at a less frenzied pace relative to the last few years. Customers have been more deliberate in their decision-making, expanding the time between proposals and lease signings. The U.S. vacancy rate ticked up to 4% this quarter.

The utilization rate stabilized at 84.8% in July. The utilization rate averaged in the optimal range at 85.3% in Q2 2023, revealing a lack of shadow space.

U.S. consumers demonstrated a willingness to spend as their pricing power grew. Nominal core retail sales (ex-auto and gas) rose at an annual rate of 4% in Q2, twice the rate of e-commerce, as the pace of wage growth exceeded inflation. The inventory-to-sales ratio has stabilized at 1.2 over the last three months as the pandemic-driven bullwhip effect faded. Instead, inventory levels are largely returning to a normal seasonal pattern that aligns with consumption growth.

Construction starts declined in Q2 which could put downward pressure on availabilities in 2024. Construction starts were 74 MSF in Q2 2023, down 13% from 84 MSF in Q1 2023.

True months of supply (TMS) rose to 36.5 months. TMS (the amount of time it would take to absorb all available supply at the current demand run rate), saw an increase of 6.5 months from the prior quarter. The uptick was consistent with normalizing operating conditions and rising rents. (TMS less than 50 months corresponds with positive real rent growth.)

We expect vacancy rates to tick up and rent growth to decelerate in 2023. Expanding leasing decision-making timelines will likely push some takeup of space into 2024. Coupled with a dip in supply, we expect availabilities to

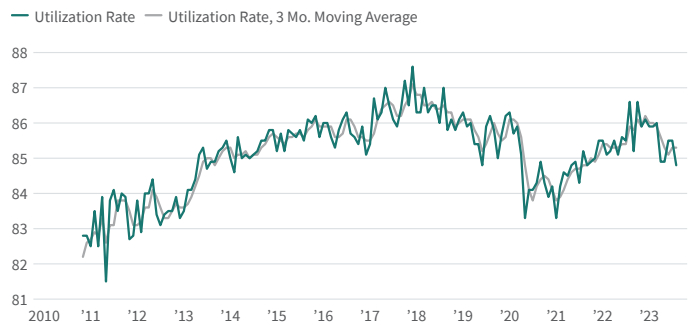
decrease in 2024 as deliveries fall short of demand. We foresee positive real rent growth through the near term, fueled by rising replacement costs, growing barriers to new supply and ongoing secular drivers to demand.

Conclusion

The U.S. logistics market appears to be normalizing to pre-pandemic levels after a period of unsustainable volatility. In aggregate, customers' logistics activity and real estate footprints are still expanding and adapting to underlying changes in their businesses and supply chains. Leasing conditions are poised to ease somewhat in 2023, amid a wave of new deliveries. Customers are advised to take advantage because the rapid decline of new construction starts and delayed decision-making could increase competition for space in 2024.

Exhibit 2

UTILIZATION RATE %, seasonally adjusted

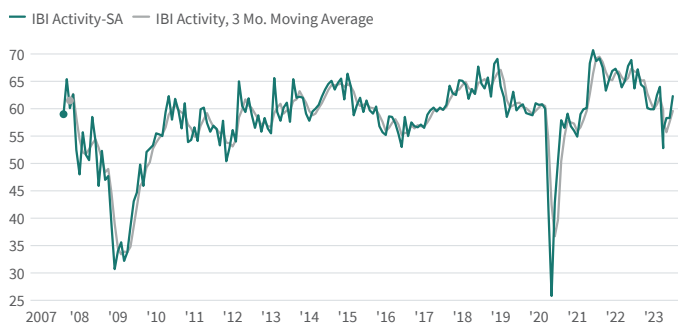


Source: Prologis Research.

Exhibit 1

IBI ACTIVITY INDEX

Index, 50 = neutral, seasonally adjusted



Source: Prologis Research.

Exhibit 3

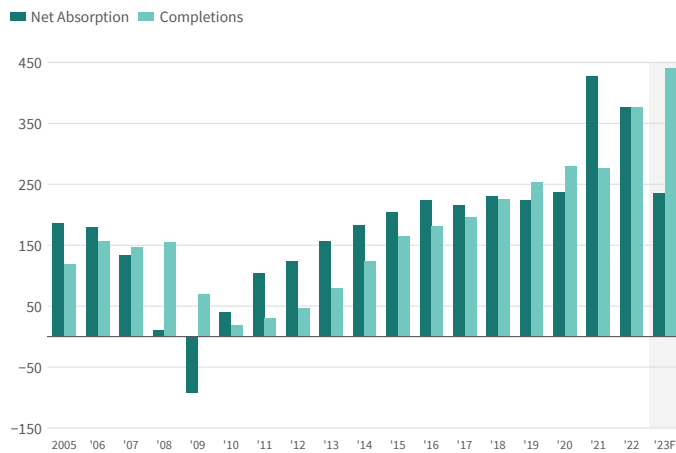
SUMMARY OF NET ABSORPTION INDICATORS

	LATEST READING	AS OF	EST. NET ABSORPTION, MSF		REGRESSION FIT (R-sqr)
			Quarterly	Annualized	
IBI-Activity	62.3	Jul 2023	58	233	0.85
Weighted Average of Econ Variables			45	179	
PMI (non-mfg)	50.4	Jun 2023	31	126	0.75
Jobs (private)	196	Jun 2023	53	211	0.64
Core Retail Sales	3.1%	Jun 2023	46	184	0.68
Inventories	22.7	1Q 2023	51	203	0.62

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

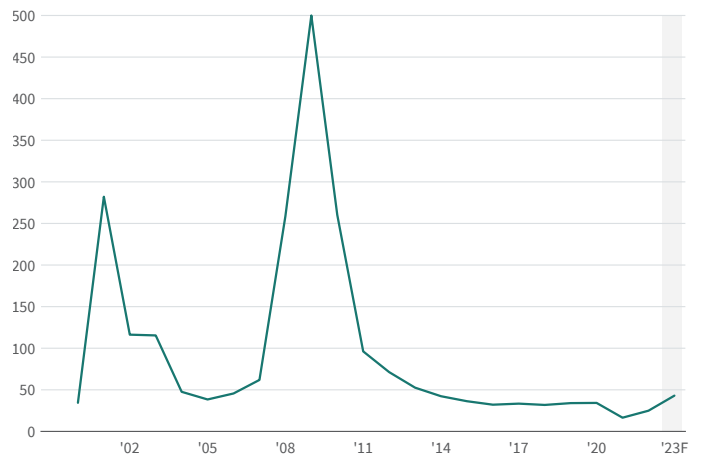
MARKET FUNDAMENTALS, U.S.
MSF



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

Exhibit 7

U.S. TRUE MONTHS SUPPLY
Months



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 8

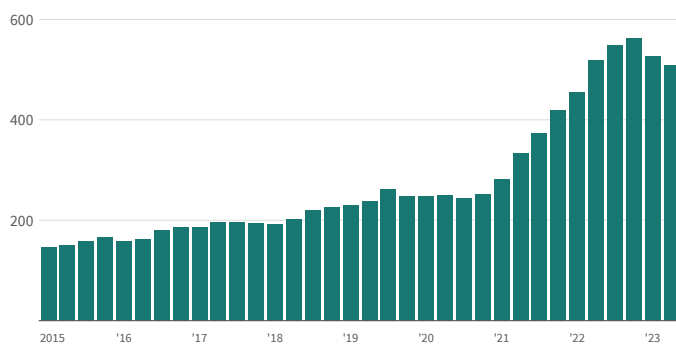
U.S. RENT GROWTH
%, y/y



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.

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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 June 30, 2023, 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 1.2 billion square feet (111 million square meters) in 19 countries. Prologis leases modern logistics facilities to a diverse base of approximately 6,600 customers principally across two major categories: business-to-business and retail/online fulfillment.