

Scarcity a constraint even as activity decelerates in early 2023



Prologis Port Reading 10, Carteret, New Jersey.

Key Takeaways:

- **Rents are rising fast due to a persistent scarcity of available space in the U.S.** The vacancy rate was 3.1% in Q4 2022, and rents increased by 4.9% from Q3.^{1,2,3}
- **The Industrial Business Indicator (IBI™) reflects growth and limited excess space.**⁴ January activity was 57.3, down from recent peaks but still indicative of an uptick in the flow of goods through facilities. The utilization rate was 86.3%, above the long-term average of 85%.
- **Developers started far fewer buildings in Q4 2022.** Deliveries will increase in 2023 as a large construction pipeline gradually empties, but a reduction in new construction starts could mean that scarcity will return in 2024.

Deeper Dive:

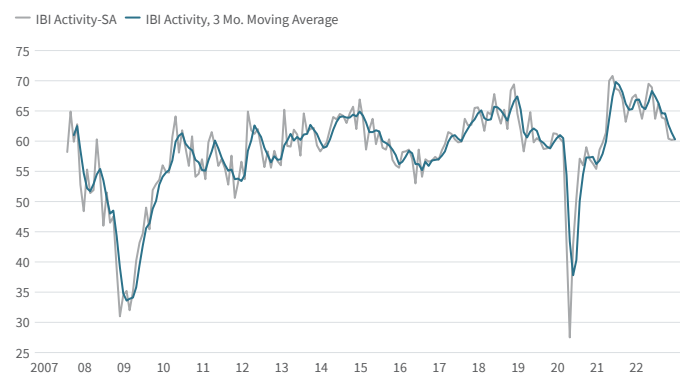
Supply chain expansion and logistics activity continued even as retail sales softened and import volumes fell to pre-pandemic levels. Companies absorbed 89 MSF of space in Q4 2022, only 5% less than the previous quarter. IBI activity maintained a healthy level of 60 through Q4, before dipping to 57.3 in January, which equates to an annual demand run rate of approximately 281 MSF.

Higher inventories and lack of space for expansion kept utilization high. Utilization of space held steady at 86% through Q4 2022, before increasing to 86.3% in January, near the functional ceiling of 87%.

Exhibit 1

IBI ACTIVITY INDEX

Index, 50 = neutral, seasonally adjusted

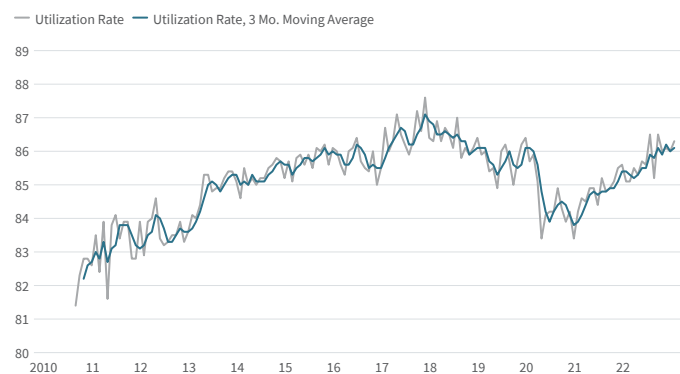


Source: Prologis Research.

Exhibit 2

UTILIZATION RATE

%, seasonally adjusted



Source: Prologis Research.

The rapid rise in the cost of capital cooled development starts. Construction starts dipped 40% quarter-over-quarter and the under-construction pipeline reached 562 MSF. Completions will rise through 2023 as the pipeline empties, driving a vacancy increase in markets with an abundance of speculative space under construction. Example markets include Atlanta, Dallas, Indianapolis, Phoenix and Savannah. Outside of select markets with significant construction, availabilities will likely remain limited due to low vacancies and fewer unleased buildings coming online. If everything under construction were delivered today as currently leased, the national vacancy rate would rise to 4.4%, still 30 bps below 2019.

True months of supply (TMS) increased to 25 months.

TMS (the amount of time it would take to absorb all available supply at the current demand run rate) was up three months from Q3, driven by an increase in the speculative construction pipeline and a slowdown in leasing velocity. Because rent growth is highly correlated with TMS, Prologis Research expects it to decelerate from 2022’s historic high of 29.8%, a continuation of the quarterly trend we noted in 2022. Rent growth will likely remain well above inflation, however, because 25 months is far below the expansionary average of 36 months.

Looking ahead, economic headwinds may slow demand, but rents are expected to increase another 10% on average. Our forecast calls for 425 MSF of deliveries and 310 MSF of net absorption in 2023, down 18% from 2022. Even with supply outpacing demand, the vacancy rate should remain below pre-pandemic levels, while TMS lingers below 30 months.

Exhibit 3

SUMMARY OF NET ABSORPTION INDICATORS

	LATEST READING		EST. NET ABSORPTION, MSF		REGRESSION FIT (R-sqr)
	AS OF		Quarterly	Annualized	
IBI-Activity	57.3	Jan 2023	70	281	0.84
Weighted Average of Econ Variables			67	269	
PMI (non-mfg)	53.5	Dec 2022	55	222	0.75
Jobs (private)	214	Dec 2022	73	293	0.64
Core Retail Sales	5.9%	Dec 2022	70	279	0.67
Inventories	70.9	3Q 2022	73	291	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.

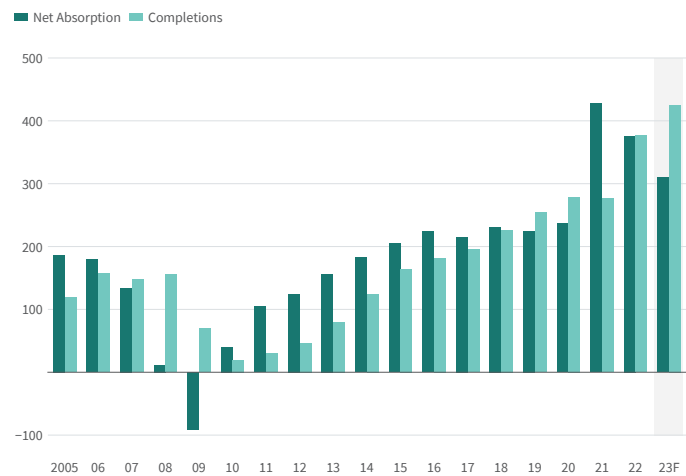
To recap, competition for space may lessen in some markets as the construction pipeline empties and the pace of decision-making slows, but these circumstances will likely be short-lived. Planning for space is still important, particularly in the most critical locations where options should remain limited.

Endnotes

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

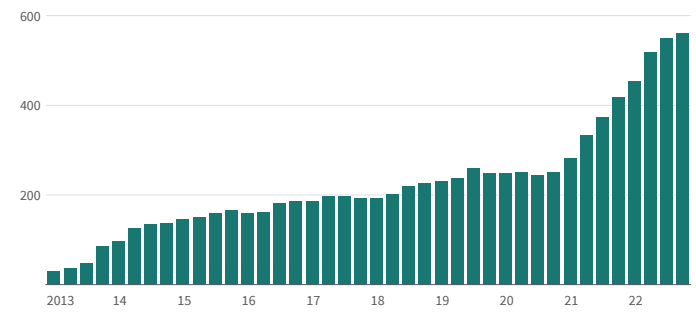
VACANCY, U.S.



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

Exhibit 6

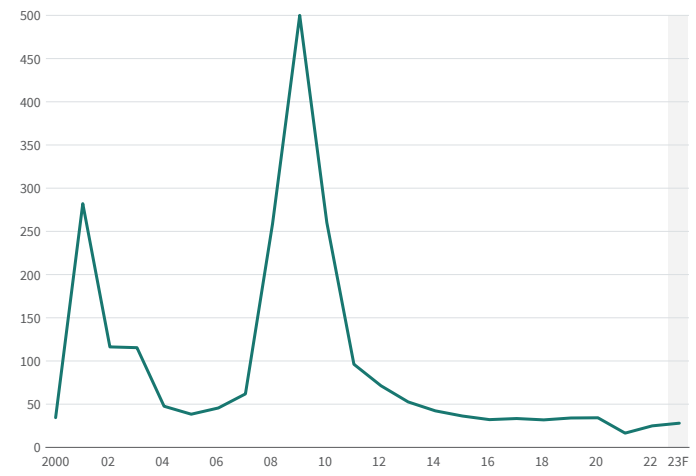
UNDER CONSTRUCTION, U.S. INDUSTRIAL
MSF



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



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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Prologis, Inc. is the global leader in logistics real estate with a focus on high-barrier, high-growth markets. As of December 31, 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 1.2 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.