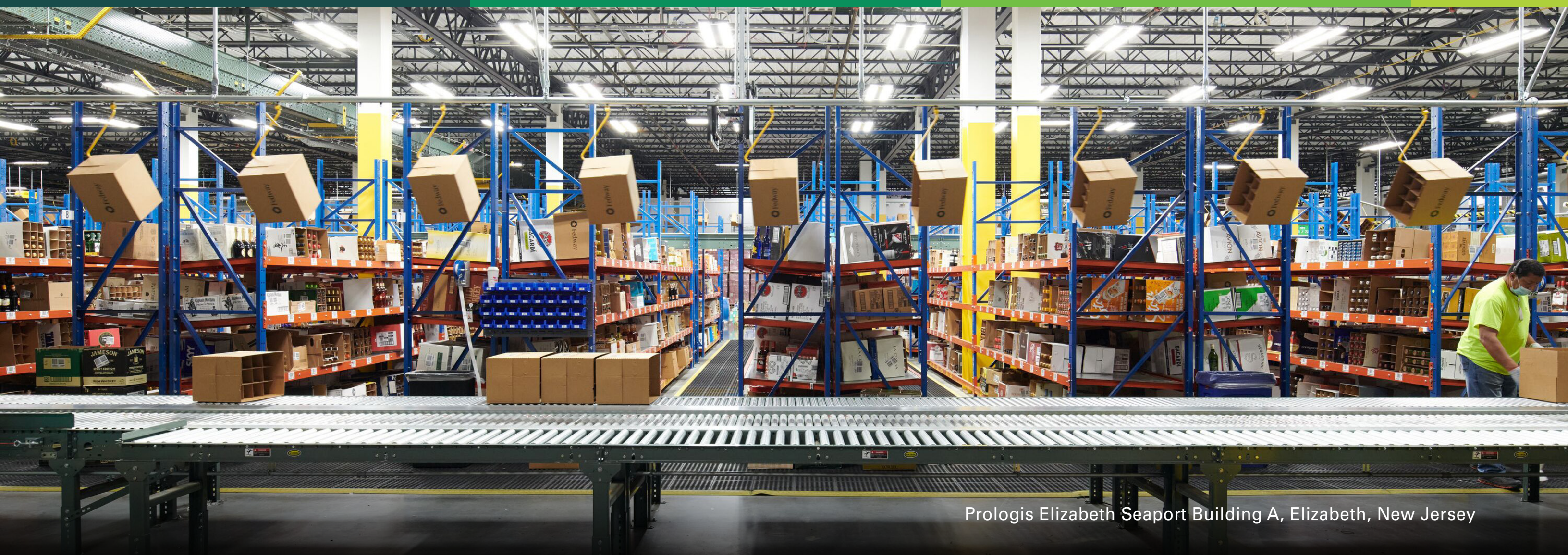
U.S. INDUSTRIAL BUSINESS INDICATOR™ | January 2021

PROLOGIS Research

Logistics Customers Expand at a Faster Pace

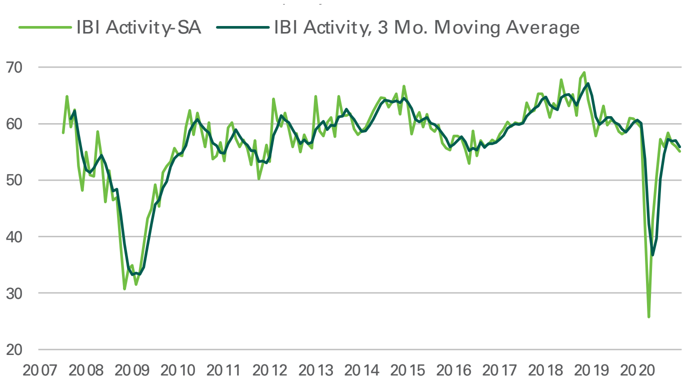


Prologis Elizabeth Seaport Building A, Elizabeth, New Jersey

The Broad View

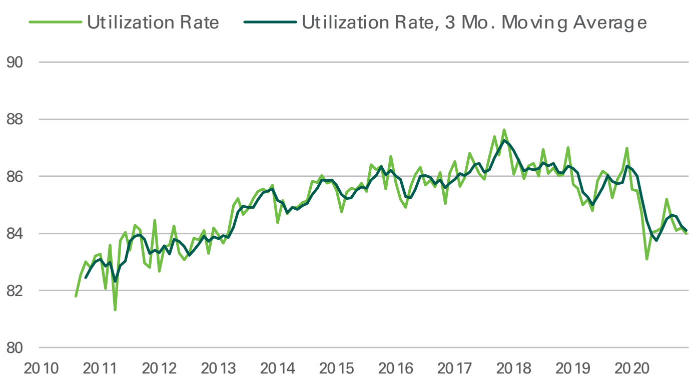
1. Prologis' IBI™, the company's proprietary survey of logistics real estate customer activity, remained in the growth range through Q4 and into early 2021. Activity levels steadied around 55 during this period, in line with moderate growth in the flow of goods. Utilization remained low, at 84%, as sales outpaced inventory growth.
2. Logistics real estate demand surged to more than 100 million square feet (MSF) in the fourth quarter.[1] Expansion activity spanned industries, markets and size categories.[2] Demand exceeded new supply for the first quarter since mid-2019, and the vacancy rate fell 10 bps to 4.8%. Market rents increased at a faster pace and in more locations, posting an increase of 3.2% for the year in aggregate.
3. We expect continued structural demand tailwinds and an improved cyclical outlook for 2021. Prologis Research upgraded our forecast for 2021 net absorption to 280 MSF from 260 MSF in Q3 2020. Completions are forecast to match this pace, with vacancy holding steady through year-end. Rent growth should accelerate further to approximately 5% in 2021, driven by a combination of strong demand, limited availabilities and rising replacement costs.

Exhibit 1
IBI ACTIVITY INDEX
Index, 50 = neutral, seasonally adjusted



Source: Prologis Research

Exhibit 2
UTILIZATION RATE
%



Source: Prologis Research

The Details

Prologis' IBI reflects both continued growth in the flow of goods and a lag in space utilization. The IBI Activity Index steadied at 55 in December 2020 and January 2021, marking eight consecutive months of growth. Space utilization, while improved from Q2 2020 levels, remained relatively low at 84% in January 2021. Customer feedback and macro data point to a lack of inventory as an underlying factor: While sales were strong, order delays and congestion at ports resulted in an all-time low in the inventory-to-sales ratio at year-end.[3]

Demand for space accelerated and broadened through year-end. Showing no signs of impact from a second wave of the pandemic, leasing activity gained momentum through year-end, bringing vacancy rates down across most regions. Structural trends – such as the rise of e-commerce and the need for safety stock to accomodate supply chain volatility – drove this demand alongside customer confidence to commit to long-term leases. Strong sales of retail goods[4] and improved prospects for cyclical growth in 2021 underscored this shift, reflected in a broadening group of logistics occupiers in growth mode and signing new leases. Retailers and transportation companies reported the strongest activity levels in late 2020 and January 2021, while services firms continued to post the weakest growth. Active segments included food and beverage, consumer products, electronics and healthcare.[5] At 100 MSF, demand exceeded new supply in Q4 2020 and the vacancy rate fell 10 bps to 4.8%, just 10 bps above its pre-pandemic level.[6]

Demand flowed into the future, elevating build-to-suit starts and pre-leasing of the construction pipeline. In total, construction starts increased by 10% year-over-year. Beneath the surface, strong demand for modern product and few availabilities drove build-to-suit activity up 66% over 2019, while spec starts posted a -4% decline. Faced with dwindling available space, customers actively pre-leased new space under construction; in fact, in several markets, half or more of logistics space under construction is already spoken for. Houston is the only market on our supply watchlist, as deliveries there outpaced demand by 2x in 2020.

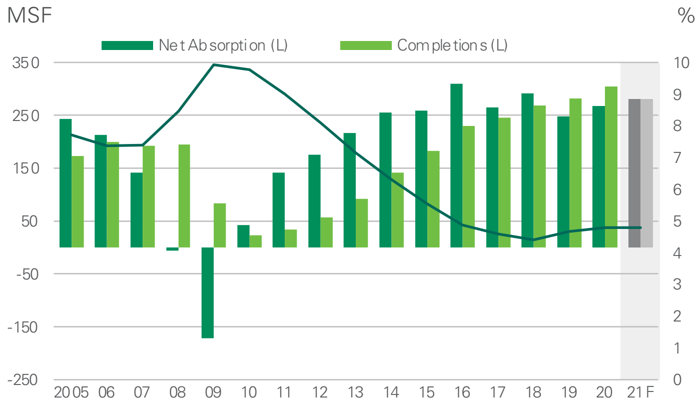
Market conditions could lead to a critical shortage of space in 2021. After more than 300 MSF of completions in 2020, Prologis Research anticipates 280 MSF of deliveries in 2021, with the bulk coming in the second half of the year. Demand will remain strong but, with vacancy rates remaining near historic lows, realized net absorption will be limited by the quantity of new supply. We forecast 280 MSF of net absorption and stable vacancy at 4.8% in 2021. Through 2020, market rents increased at a faster pace and in more locations, posting an increase of 3.2% for the year in aggregate. Prologis Research expects that this momentum will extend through 2021, with 5% growth projected for the full year.

Exhibit 3
SUMMARY OF NET ABSORPTION INDICATORS

	LATEST READING	AS OF	EST. NET ABSORPTION, MSF Quarterly	EST. NET ABSORPTION, MSF Annualized	REGRESSION FIT (R-SQR)
IBI-Activity	56.8	Dec 2020	79	317	0.79
Weighted Average of Econ Variables			77	309	
PMI (non-mfg)	56.6	Dec 2020	71	285	0.68
Jobs (private)	416	Dec 2020	78	312	0.53
Core Retail Sales	9.2%	Dec 2020	97	388	0.58
Inventories	-0.8	3Q 2020	63	254	0.56

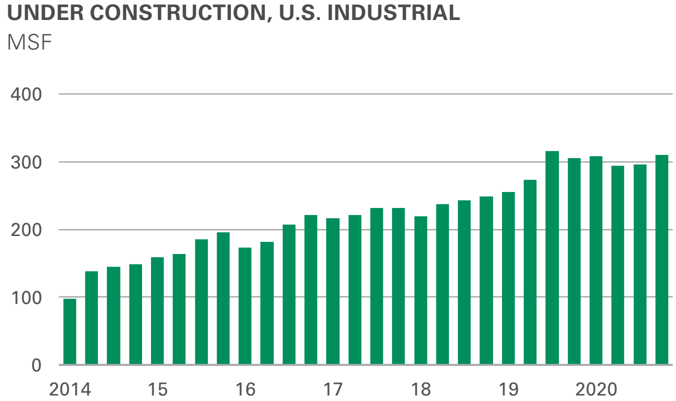
Note: Values are a 3-month trailing average, except inventories.
Source: Institute for Supply Management, Bureau of Economic Analysis, U.S. Census, Bureau of Labor Statistics, Prologis Research

Exhibit 4
MARKET FUNDAMENTALS, U.S.



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

Exhibit 5
UNDER CONSTRUCTION, U.S. INDUSTRIAL



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

Quick Wrap

Structural and cyclical demand could intensify competition for available logistics real estate. Demand is poised to remain strong for three reasons: (1) improved cyclical growth prospects built on stimulus, vaccination rollouts and consumer savings/pent-up demand; (2) continued build-out of e-fulfilment capabilities; and (3) investment in supply chain resilience via inventory rebuilding and expansion. Rising barriers to logistics real estate development have both extended the time it takes to construct a facility and increased costs. A mid-2020 pause in construction activity will likely result in a lower level of deliveries in early-to-mid 2021. Availabilities are likely to remain low through the near term, boosting competition for space and market rental rates. To stay ahead of this competition, customers are advised to plan far in advance for their supply chain needs.

Endnotes

1. Prologis portfolio data
2. CBRE, Cushman & Wakefield, JLL, Colliers, CBRE-EA, Prologis Research
3. U.S. Census Bureau, retailers' inventories to sales ratio data as of November 2020
4. U.S. Census Bureau Advance Retail Sales report as of December 2020
5. Prologis portfolio data
6. CBRE, Cushman & Wakefield, JLL, Colliers, CBRE-EA, Prologis Research

Forward-Looking Statements

About Prologis Research

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 December 31, 2020, 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 984 million square feet (91 million square meters) in 19 countries.

Prologis leases modern logistics facilities to a diverse base of approximately 5,500 customers across two major categories: business-to-business and retail/online fulfillment.

Prologis
Pier 1, Bay 1
San Francisco, CA 94111
United States
+1 415 394 9000
www.prologis.com

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