

2018 Was an Active Year for Customers and Developers



Prologis Atlanta Northeast, Atlanta, Georgia

Logistics real estate users reported strong growth in activity and a peak utilization rate of 87% in U.S. logistics facilities during December 2018. The need for space was reflected in logistics market fundamentals, which posted demand in excess of new supply for the ninth consecutive year.¹

Prologis Research expects that a slower pace of economic growth may lead to a slight decline in both completions and net absorption in 2019, relative to 2018's elevated levels. Because these will move in tandem, we expect that the vacancy rate will remain steady at 4.5%, putting continued upward pressure on rental rates.

Exhibit 1
IBI ACTIVITY INDEX

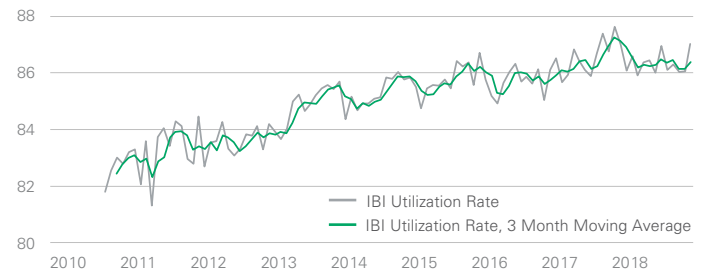
(Index, 50 = neutral, seasonally adjusted)



Source: Prologis Research

Exhibit 2
IBI UTILIZATION RATE

(%)



Source: Prologis Research

Activity in U.S. facilities and high utilization reveal that customers are operating at capacity. Prologis' proprietary Industrial Business Indicator (IBI)™ came in at 65.3 in December 2018, signaling strong growth (readings above 50 indicate growth). This reading was in line with the average for the year, but softened slightly from an

average of 70.0 in November and October. At 87%, the utilization rate remained at near record levels in December. Utilization averaged 86.3% in 2018, even as logistics customers continued to rapidly expand their footprints.

Exhibit 3

SUMMARY OF NET ABSORPTION INDICATORS

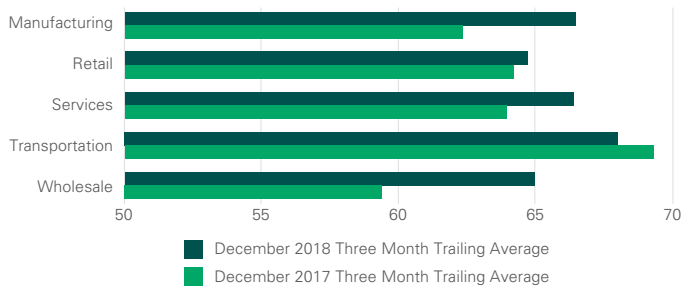
	LATEST READING	AS OF	EST. NET ABSORPTION (M, SF)		REGRESSION FIT (R-sqr)
			Quarterly	Annualized	
IBI-Activity	67.3	Dec 2018	70	280	0.86
Weighted Average of Econ Variables			66	263	
PMI (non-mfg)	60.9	Dec 2018	79	317	0.80
Jobs (private)	252	Dec 2018	65	260	0.80
Core Retail Sales	4.2%	Dec 2018	55	220	0.73
Inventories	92.7	3Q 2018	63	250	0.73

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

IBI ACTIVITY INDEX BY INDUSTRY

(Index, 50 = neutral)

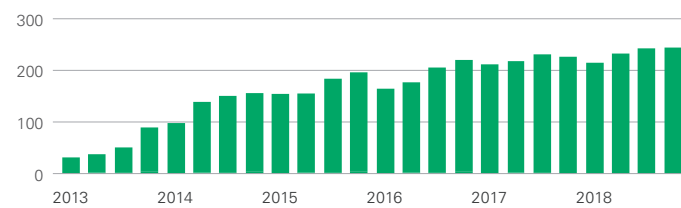


Source: Prologis Research

Exhibit 5

UNDER CONSTRUCTION PIPELINE, U.S.

(MSF)

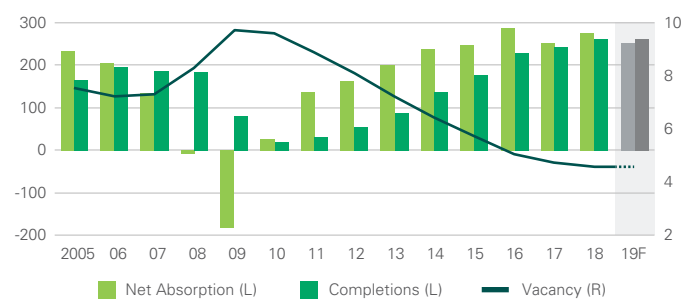


Source: Prologis Research

Exhibit 6

OPERATING FUNDAMENTALS, U.S.

(MSF)



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

Nearly all industries reported faster growth compared with last year. Among industries that we monitor, every industry except transportation reported a faster pace of activity growth in the fourth quarter relative to the same period in 2017. The activity reading was highest for transportation companies, at 68.0, and lowest for retailers at 64.7—still an elevated level.

Supply increased in 2018. Some 262 million square feet of logistics real estate came online in 2018, up 9% from 2017.² Deliveries were primarily concentrated in outlying areas of large markets, which have low barriers to entry that allow developers to bring big-box product online. These markets included Dallas, Atlanta, the Inland Empire, Pennsylvania and Chicago. Outside of these few exceptions, supply remains in balance with demand. The pipeline of space under construction continued to expand gradually, reaching 246 million square feet in the fourth quarter of 2018, up about 8% year-over-year.³

Robust demand kept pace with higher completions. Stronger economic growth, the need to meet the ever-increasing demands of consumers, and a temporary push to boost inventory levels ahead of tariffs all coincided to drive logistics real estate demand. Net absorption totaled 276 million square feet in 2018, the second-highest total in a decade.⁴ A higher level of new supply coming online allowed for higher realized demand compared with 2017, when the market effectively hit capacity constraints.

The outlook is for another year of low vacancy and rising rents. Looking ahead to 2019, the combination of slower economic growth⁵ and a continued structural push to meet higher service level expectations (amplified by e-commerce) should offset each other, producing another year of roughly matched supply and demand. Prologis Research projects 250 million square feet of net absorption and 260 million square feet of deliveries in 2019. As a result, the vacancy rate should stabilize at its historic low of 4.5%, maintaining upward pressure on rental rates and making expansion challenging for customers in many markets.

Endnotes

1. CBRE, JLL, Colliers, Cushman & Wakefield, CBRE-EA, Prologis Research
2. CBRE, JLL, Colliers, Cushman & Wakefield, CBRE-EA, Prologis Research
3. CBRE, JLL, Colliers, Cushman & Wakefield, CBRE-EA, Prologis Research
4. CBRE, JLL, Colliers, Cushman & Wakefield, CBRE-EA, Prologis Research
5. Consensus Economics, December 2018 report

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 December 31, 2018, 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 768 million square feet (71 million square meters) in 19 countries.

Prologis leases modern logistics facilities to a diverse base of approximately 5,100 customers across two major categories: business-to-business and retail/online fulfillment.

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