

# IBI activity shows resilience through market volatility



Prologis Palmer Lakes North 1, Miami, Florida

## Key Takeaways:

- **Rents increased 4.4% in Q1 due to persistent competition for prime logistics space.** The vacancy rate ended the first quarter at 3.7%.<sup>1,2,3</sup>
- **The Industrial Business Indicator (IBI™) activity index bounced back in April.**<sup>4</sup> The index averaged 59.7 in Q1 2023, but readings in the last two months coincided with broader market volatility and revealed resilience. In March, the index fell to its lowest level in 30 months alongside bank failure-fueled financial market volatility and overall economic uncertainty. The April reading increased to 56.2, a normal expansionary reading for activity.
- **A 40% drop in construction starts points to fewer options in 2024.** As the current construction pipeline empties in 2023, Prologis Research expects the vacancy rate to increase to the low-/mid-4% range before decreasing again in 2024. **Customers may face a narrow window to act on increased availability, particularly in the most desirable locations.**

## Deeper Dive:

**Competition for space continued in 2023, even as demand returned to more normal levels.** Logistics users absorbed 60 MSF in Q1 2023, in line with the years leading up to the pandemic. IBI activity of 56.2 in April equates to an annual demand run rate of approximately 242 MSF.

**The utilization rate stabilized in the 85-86% range, considered optimal for logistics users.** The utilization rate averaged 85.6% in Q1 2023 and was 84.9% in April, revealing a lack of shadow space.

**Construction starts dropped by 40% compared with the average pace of starts from Q1 through Q3 2022 due to increased costs and a lack of financing.** Combined with delayed decision-making and potential for improvement in the economic backdrop, the future reduction in deliveries could produce another year of declining and ultra-low vacancies in 2024. Some markets, however, could see more interim vacancies, given the abundance of speculative space under construction. Examples include Dallas, Phoenix, Savannah and Austin. Outside these select markets, vacancy rates are expected to remain below 2019 levels, given limited current availabilities and few unleased buildings in the pipeline.

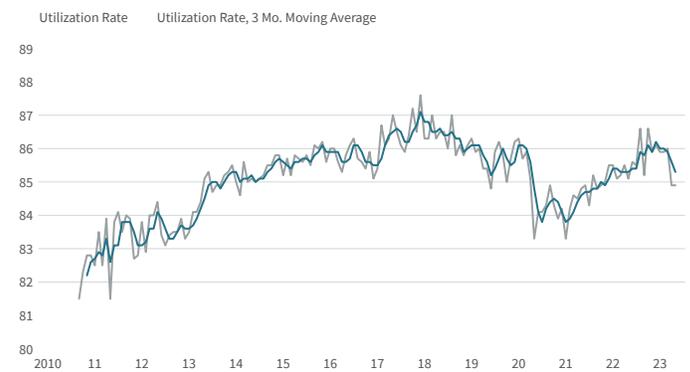
**True months of supply (TMS) increased to 30 months.** TMS (the amount of time it would take to absorb all available supply at the current demand run rate) was up five months from Q4. Even as TMS rises from trough levels, it remains very low on an absolute basis and consistent with positive real rent growth. Markets and submarkets with the largest construction pipelines, detailed above, should post the largest increases in TMS, leading to growing differentiation in availabilities and rent growth by location.

**Looking ahead, we expect rents to increase by 10% for the year.** We’re refining our forecast for 2023, given the data so far this year—specifically, 275 MSF of net absorption and deliveries of 445 MSF. Macroeconomic crosscurrents may lead to some delayed decision-making, which could push demand from 2023 into 2024. The U.S. vacancy rate should drift up to the low-/mid-4% range by year-end, well below the historic average. New supply should drop off sharply in 2024, raising the potential for demand to outpace supply and pulling the vacancy rate down to the mid-3% range by year-end 2024. TMS is poised to drift higher later this year and then retreat below 30 into 2024, consistent with re-accelerating rent growth.

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	
<b>IBI-Activity</b>	<b>56.2</b>	<b>Apr 2023</b>	<b>61</b>	<b>242</b>	<b>0.84</b>
<b>Weighted Average of Econ Variables</b>			<b>62</b>	<b>250</b>	
PMI (non-mfg)	53.8	Mar 2022	52	209	0.75
Jobs (private)	269	Mar 2022	66	263	0.64
Core Retail Sales	5.7%	Mar 2022	63	252	0.67
Inventories	161.8	4Q 2022	71	283	0.62

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.

## Conclusion

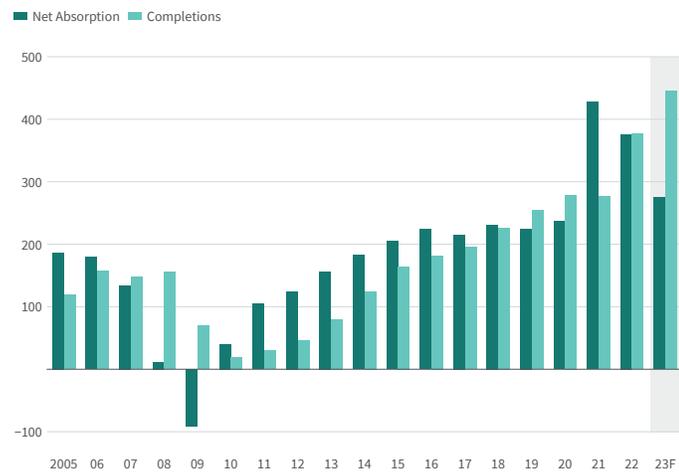
The current macroeconomic environment has impacted construction development more than demand thus far. As a result, it's imperative to think ahead, particularly in the most sought-after markets where vacancies will remain lower with new supply forecasted to drop off heading into 2024.

## 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

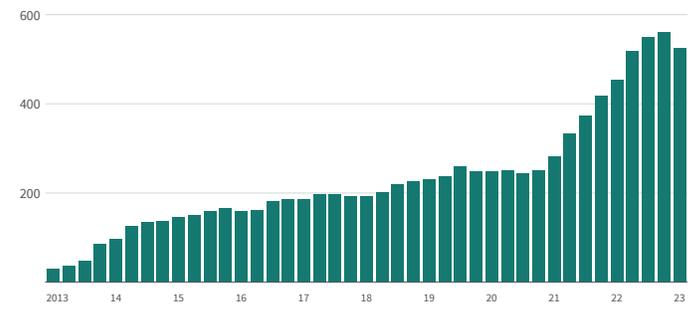
### VACANCY, U.S. %



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

Exhibit 6

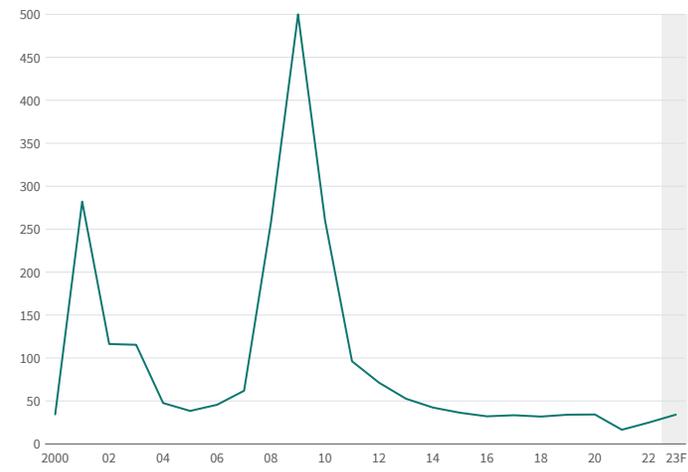
### UNDER CONSTRUCTION, U.S. INDUSTRIAL MSF



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 %, y/y



Source: CBRE, JLL, Cushman & Wakefield, Colliers, CoStar, CBRE-EA, 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 March 31, 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.