

Customer Activity Surges on Strong Retail Sales and Inventory Re-stocking



Prologis Oakland 4, Oakland, California

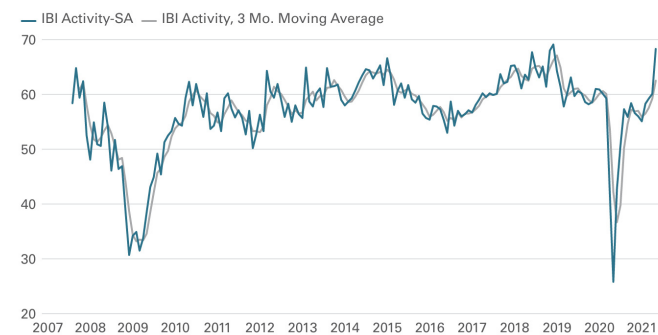
The Broad View

1. Prologis' IBI™, the company's proprietary survey of logistics real estate customer activity, revealed improving momentum through early 2021. Activity rose steadily from around 56 in Q4 2020 to 59 in Q1 2021. The late April survey revealed a sharp jump to 68, reflecting increased throughput and indicating strong future demand growth. Utilization neared 85%, as healthy retail sales kept pace with the restocking of goods.
2. Logistics demand was 93 MSF in the first quarter after reaching more than 100 MSF in Q4 2020; the latter a record high.¹ Expansion activity was on display across many industries, building sizes and market categories. Demand exceeded supply for the second consecutive quarter, pushing vacancy down 10 basis points to 4.7% and increasing market rents by 2.4%.
3. Prologis Research has revised our forecast upward for both demand and supply to 300 MSF in 2021. Construction is active and demand should keep pace, leading to stable vacancy of 4.7%, close to its historic low. Rising replacement costs, limited availabilities and elevated demand should propel rent growth to 6.5% in 2021.

Exhibit 1

IBI ACTIVITY INDEX

Index, 50 = neutral, seasonally adjusted

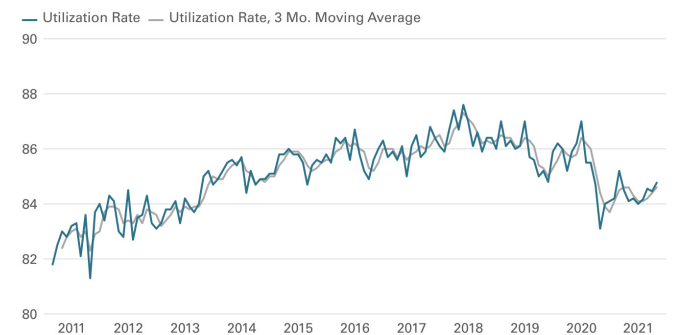


Source: Prologis Research

Exhibit 2

UTILIZATION RATE

%



Source: Prologis Research

The Details

Prologis' IBI shows strong growth in the flow of goods and a rise in space utilization. The index increased from 55 in December 2020 to the high 50s during the first quarter, the highest level since 2019. Then in late April, activity surged to 68, the highest level since late 2018. Restocking is underway, as seen in elevated port volumes. Retail sales are also up as stimulus efforts and job growth are boosting consumer confidence. Space utilization ticked up to the high-84% range in April. Although strong sales, lengthening delivery times and port congestion continue to drive historically low inventory-to-sales ratios, utilization is on the rise as goods make their way through the supply chain.

Demand momentum and the diversity of occupiers exhibited broad improvement. Structural trends such as e-commerce continue to drive healthy demand. A range of customer industries (parcel delivery, 3PLs, food/beverage) were active. Outsized demand relative to new supply is prompting significant competition for new space, with customers placing a premium on quickly securing prime logistics space. The vacancy rate fell by 10 bps to 4.7% from the prior quarter, reaching pre-pandemic levels, and driving rent growth of 2.4% quarter-over-quarter.

Strong demand fueled a rise in speculative construction and robust pre-leasing. With completions lagging demand and growing investor interest in logistics real estate, developers are working fast to monetize zoned and entitled land—if they have it. Construction starts increased 25% year-over-year—the highest quarterly volume since Prologis Research began tracking. The proportion of spec starts increased to the 80% range after averaging 70% in 2020. Customers are pre-leasing space at a healthy clip given the shortage of supply and competition in the market. Approximately half of the projects under construction are pre-leased, up about 10 percentage points from 2020. Houston is the only market with supply that exceeds demand, but vacancies are also dwindling in that market alongside healthy demand and a pullback in new speculative construction. Replacement and land costs are rising and supply chain bottlenecks (especially for structural steel and timber) are lengthening construction timelines, possibly limiting future deliveries.

Exhibit 3

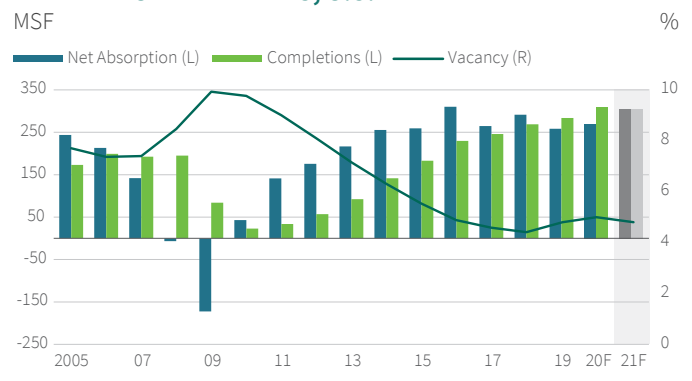
SUMMARY OF NET ABSORPTION INDICATORS

| | LATEST READING | AS OF | EST. NET ABSORPTION, MSF | | REGRESSION FIT (R-SQR) |
|---|----------------|-------------------|--------------------------|------------|------------------------|
| | | | Quarterly | Annualized | |
| IBI-Activity | 62.5 | April 2021 | 84 | 334 | 0.80 |
| Weighted Average of Econ Variables | | | 86 | 344 | |
| PMI (non-mfg) | 59.2 | Mar 2021 | 88 | 351 | 0.68 |
| Jobs (private) | 487 | Mar 2021 | 79 | 316 | 0.53 |
| Core Retail Sales | 13.8% | Mar 2021 | 125 | 502 | 0.58 |
| Inventories | -90.1 | 1Q 2021 | 50 | 198 | 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

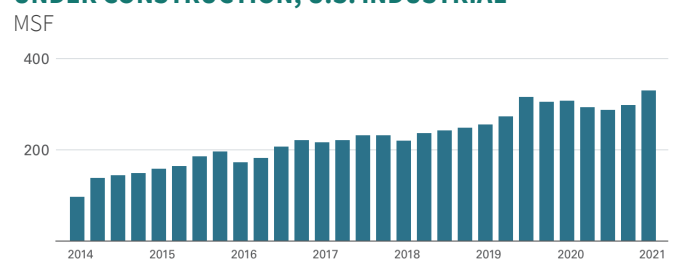
MARKET FUNDAMENTALS, U.S.



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

Despite increased starts in recent quarters, robust demand could lead to an acute lack of logistics space in 2021. Prologis Research expects 300 MSF of completions in 2021, with the bulk toward the end of the year. Improving growth prospects across diverse customer segments will drive strong demand but leasing could be constrained by a lack of new supply. As a result, we anticipate 300 MSF of net absorption and a stable vacancy rate of 4.7% in 2021. Urgency to secure space, along with limited availabilities and rising replacement costs, should drive up market rents through the rest of the year in most locations. Prologis Research forecasts

that rent growth will accelerate through 2021, coming in at 6.5% growth for the full year. Taken together, these trends likely portend a challenging leasing environment through the near term, making advanced planning for upcoming requirements crucial for successful network expansion.

Endnotes

1. CBRE, Cushman & Wakefield, JLL, Colliers, CBRE-EA, Prologis Research

Forward-Looking Statements

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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 March 31, 2021, 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 990 million square feet (92 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 fulfilment.