



## PROLOGIS INDUSTRIAL BUSINESS INDICATOR SHOWS CONTINUING EXPANSION:

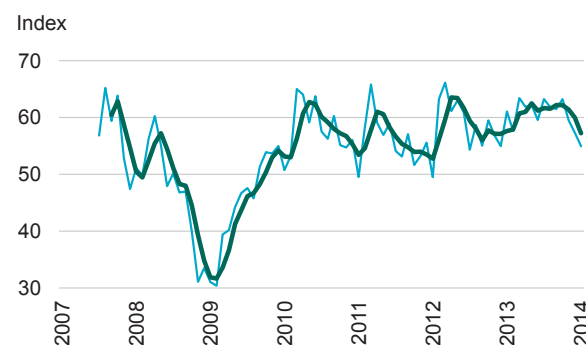
PROLOGIS RESEARCH FORECASTS 2014 NET ABSORPTION OF 225 MILLION SQUARE FEET

*Prologis' Industrial Business Indicator (IBI), the company's proprietary survey of customer activity levels and facility utilization rates, continued to rise in Q4 2013 for a strong finish to the year. Net absorption in the United States during 2013 was 233 million square feet<sup>1</sup>, the highest in eight years and exceeded the top end of our expectations. We see this momentum carrying into 2014, with our full-year net absorption forecast at 225 million square feet. Our outlook suggests demand will run at roughly two times the pace of expected development completions, pushing the vacancy rate to its lowest level on record.*

**Our IBI survey reveals that customers are busier than they ever have been since its inception in 2007.** Net absorption in the U.S. last year was strong, and the IBI helps explain why. The index for activity averaged 60.5 during the full year and 60.0 during the fourth quarter. Readings above 50 indicate expansion and these are the highest readings since the inception of the IBI in 2007. Notably, the index remained elevated during December and January (readings of 57.3 and 54.9, respectively), outperforming macroeconomic data for those months, which was less robust. Collectively, these data indicate our customers' businesses are healthy, a positive for leasing and consistent with the market's aggregate outperformance versus our internal forecast for net absorption.

**Utilization rates continue to rise.** Utilization rates have been rising since the start of the recovery in the U.S., as leasing decisions tend to lag increases in activity levels. By the fourth quarter, utilization rates reached 85.6%, up 170 basis points from Q4 2012. Elevated utilization levels mean our customers' facilities are at capacity with their current activities, much less for future growth. While utilization rates are not yet at peak, the pace of year-on-year increases is slowing, suggesting that rising activity levels are increasingly translating to leasing activity.

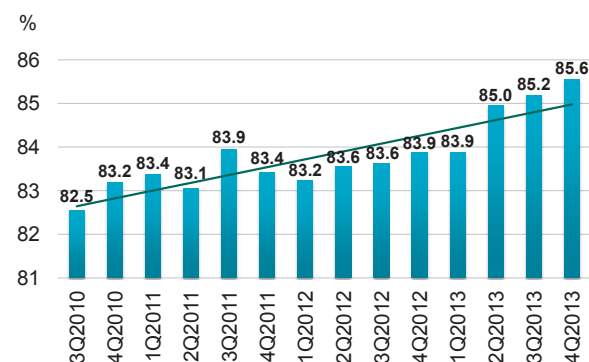
**EXHIBIT 1:  
IBI - Activity Index**



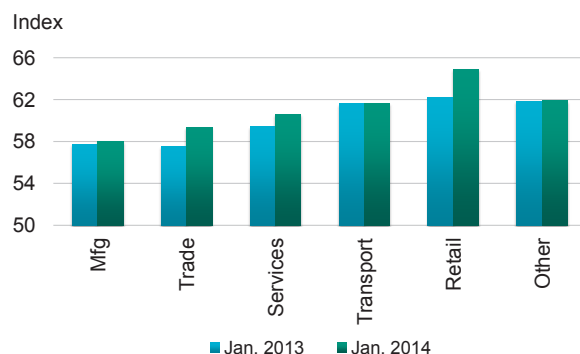
Note: Thicker line is three-month moving average

Source: Prologis

**EXHIBIT 2:  
IBI - Utilization Rate**



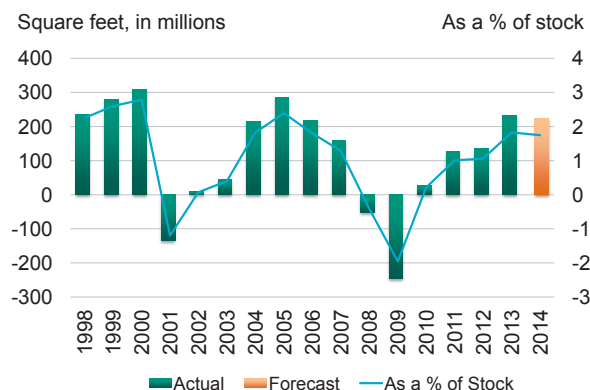
Source: Prologis

**EXHIBIT 3:  
IBI by Customer Segments**

Note: Data presented on a trailing 12-month basis  
Source: Prologis

The industry segment detail of the IBI shows that the expansion remains diverse. Exhibit 3 presents the activity index for each industry and compares it to the level from one year ago. Each of the six industry verticals tracked by the IBI indicates an index level above 50, revealing ongoing strength. In fact, the lowest, manufacturing-oriented customers with a reading of 58.0, is quite high. All of the six customer verticals have increased in the past year, with the greatest improvement seen from our retail and our trade-oriented customers.

In forming our estimates of annual net absorption, we use the IBI in combination with economic forecasts and incoming data points. The outlook for the economy is an acceleration of growth in 2014. Growth is expected to come from many sectors, including improving consumer confidence, higher business investment and accelerating trade flows, all of which are positives for logistics tenants. It is important to note that incoming data at the time of writing is below expectations, however many economists are citing weather as a factor and expect stronger performance to re-emerge. Exhibit 5 presents incoming economic data and its implication for net absorption. This table is based upon the approach we detailed in our November 2013 demand forecast.

**EXHIBIT 4:  
Net Absorption Expansion Continues**

Source: CBRE, Prologis

**EXHIBIT 5:  
Summary of Net Absorption Indicators**

	Latest Reading	as of	Est. Net Absorption, M sq ft Quarterly	Annualized	Regression Fit (R-sqr)
IBI-Activity	57.2	Jan, 2014	50	200	0.86
Weighted Average of Econ Variables			62	247	
PMI (non-mfg)	53.7	Jan, 2014	49	194	0.79
Retail Sales	4.1%	Dec, 2013	56	223	0.72
Inventories	127.2	Q4 2013	84	335	0.68
Jobs (private)	167.7	Jan, 2014	61	245	0.74

Note: IBI series is the three-month moving average index level. We use an AR process in our models, and favorable timing of absorption in Q4 2013 likely added 10-25 msf to our annualized estimates. PMI series is the three-month moving average index level. Retail sales series is the yr/yr growth of the three-month moving average. Inventories series is the two-quarter moving average in billions of real dollars (2009 basis). Jobs series is the three month average change in private employment in thousands. The weighted average is based upon R-squareds.

Source: Institute for Supply Management, Bureau of Economic Analysis, U.S. Census, Bureau of Labor Statistics, Prologis

In 2014, we estimate completions will total 110-115 million square feet, roughly half the pace of incoming demand. As of the fourth quarter, the pipeline totaled 100 million square feet of projects under construction, according to CBRE.

The majority of these projects are expected to deliver this year, and we anticipate additional starts in the first quarter. Much of this new supply is concentrated in undersupplied markets, with over a third in Southern California and Texas. These markets have had healthy levels of net absorption and elevated occupancies. For most other markets, the pace of supply remains well under half of normal levels while demand has returned to normal levels. The resulting effect is a favorable supply and demand imbalance. Vacancy rates fell below the prior cycle low in 2013, to 7.2 percent as of Q4 2013, compared to a low of 7.3 percent in Q3 2007<sup>2</sup>. We expect a continued supply and demand imbalance to push the vacancy rate to a new record low in 2014.

## CONCLUSION

### Improving operating conditions into year-end creates momentum heading into 2014.

We forecast U.S. net absorption of 225 million square feet this year. We expect vacancy rates will continue to fall as a favorable supply and demand imbalance persists. With completions expected to total 110-115 million square feet this year, net absorption is expected to run at roughly twice the pace of supply deliveries. The pace of supply is only modestly ahead of our estimate of obsolescence in the United States and is predominantly concentrated in markets with elevated occupancy conditions. Low market vacancies will continue to support healthy rent growth as customers' businesses expand, reflected in above-50 IBI readings that we expect through the rest of the year.

## ENDNOTES

1. CBRE – Econometric Advisors
2. CBRE – Econometric Advisors

## Forward-Looking Statements

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## 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.