

LOCATION DECISION DRIVERS:



TRENDS SHAPING NEW LOCATION SELECTION IN EUROPE

OCTOBER 2017

INTRODUCTION

The European logistics market is changing rapidly: e-commerce is accelerating; supply chains are being restructured and economies are expanding. To understand how these changes are likely to affect the real estate market, Prologis Research and eyefortransport (eft) polled logistics operators across Europe to ask what criteria are driving location selection now and for the future. The survey was carried out from February to May 2017, with 280 respondents across sectors ranging from retail to automotive to electronics. Using historic data from surveys conducted in 2013 and 2015, we have been able to track how decisions about logistics locations have evolved over this period.

This report provides the following insights:

- 1 Diversity means stability
- 2 Occupiers focus on operational efficiency
- 3 Structural changes drive location strategies
- 4 Further consolidation expected in next five years
- 5 Consolidation of distribution networks leads to further expansion



1. DIVERSITY MEANS STABILITY

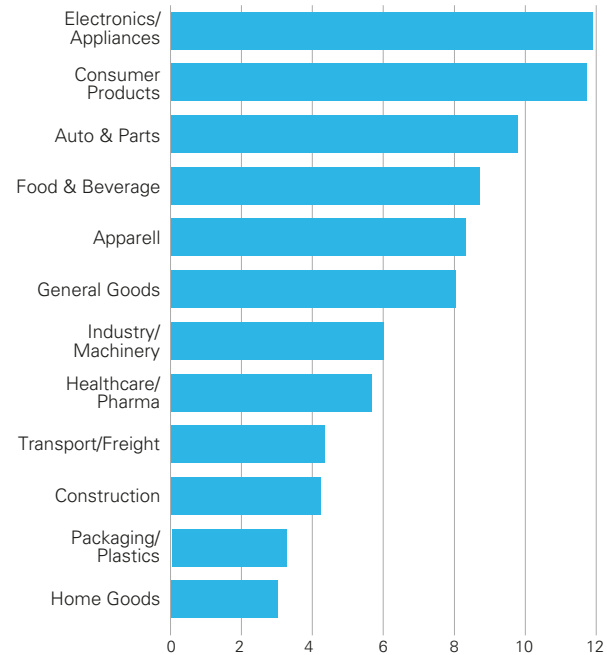
Prologis' European customers operate across a wide range of sectors. This diversity means that demand for logistics real estate is balanced and stable.

To understand how warehouse users select specific locations, our first step was to identify exactly who these companies are, which sectors they serve and how they operate their supply chains.

The Prologis portfolio in Europe comprises 17 million square metres across 12 countries, so this provides a useful insight into the overall market.

The initial finding of our portfolio analysis was that our customers operate across a wide diversity of sectors. In fact, no single sector represents more than 12 percent of our customer footprint. This means that if one sector contracts, another is likely to expand and demand for logistics real estate will remain stable.

EXHIBIT 1: Customer Industry in Prologis warehouses, Europe (% , NRA basis)



Source: Prologis Research

2. OCCUPIERS FOCUS ON OPERATIONAL EFFICIENCY

The most important location criteria are proximity to economic networks and the availability of a flexible workforce.

With a focus on operational efficiency, logistics occupiers are aiming to improve their supply chains. Their priority is to be near large population centres and transport networks, closely followed by the need to be within easy reach of customers and suppliers. While proximity to economic networks has been the top criteria in the past two surveys, access to customers and suppliers has moved up to third place from sixth and seventh in 2015 and 2013 respectively, reflecting a sharper focus on supply chain efficiency.

The availability of a flexible workforce is another aspect of operational efficiency that is increasingly important to the logistics sector. With the growth of e-commerce and the steady

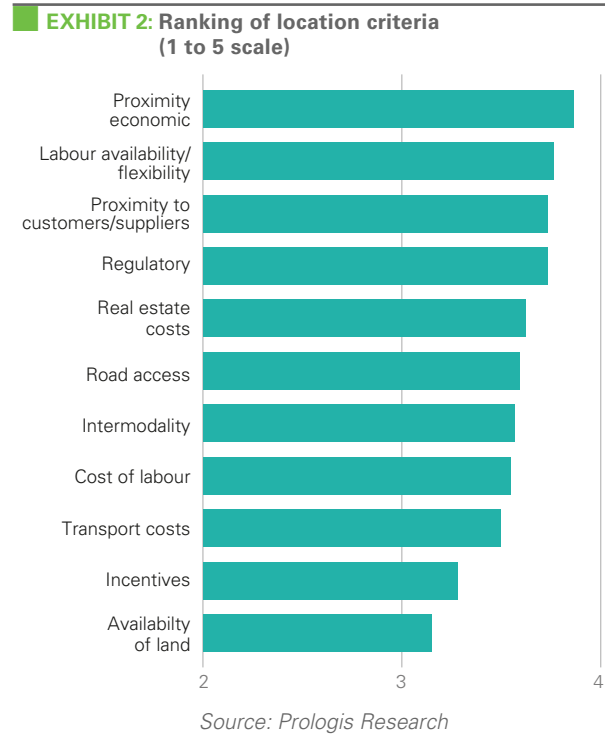
decline in unemployment levels, labour availability and flexibility rose to second place in the 2017 ranking from fourth in 2015. Further, the drive for efficiency has pushed regulatory concerns up from eighth place in 2015 to fourth in 2017.

Similarly, multimodality - access to intermodal infrastructure at ports, airports and rail hubs - is climbing up the ranking. In both 2015 and 2013, it was one of the least important criteria. By 2017, with increased emphasis on operational efficiency, the proximity of various forms of freight transport had reached seventh place.

Despite rent rises, real estate costs were seen to be less important in 2017 than in 2015 and 2013, falling from third place in 2015 to fifth place. Availability of development land was seen to be the least important criteria in the 2017 survey. However, since 2013 the criteria with the lowest

score has been incentives – tax advantages and grants that a country or region will provide for relocating companies.

While proximity to large urban centres and transport routes was important to all customers in the 2017 survey, the results showed some variations in emphasis between different sectors. Labour availability and flexibility, for example, scored particularly well with apparel companies, while a location’s regulatory status was of most concern to the consumer products, automotive and pharma sectors. Interestingly, only pharma companies rated real estate costs as a top three criteria. It is worth noting that pharma companies need to invest more heavily in their logistics real estate than other sectors, to comply with legislation.

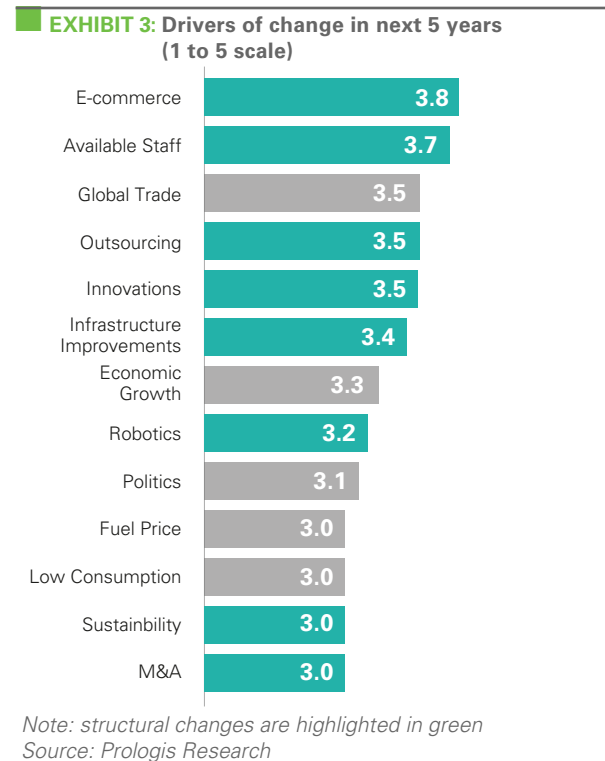


3. STRUCTURAL CHANGES DRIVE LOCATION STRATEGIES

Over the next five years, long-term structural changes are expected to have more impact on location decisions than short-term cyclical drivers.

The European logistics market is evolving rapidly and long-term trends, such as the continuing growth of e-commerce and outsourcing are set to be a greater influence on future location decisions than short-term cyclical drivers, such as low levels of consumption.

Online shopping dates back more than two decades and e-fulfilment has played a significant role in the logistics sector for at least five years. Since e-commerce is still in the early stages of its growth cycle and because it is an intensive user of logistics real estate, the expansion of online activity is leading to increasing demand. Recognising the potential of e-commerce, respondents rated its growth as the most important driver of change in the next five years.



This is the first time that the continuing development of online shopping has topped the ranking, climbing from fifth place in 2015 and sixth in 2013. Consumer-facing sectors, such as electronics, consumer products and home goods gave e-commerce growth a particularly high score.

With changing demographics and increased levels of value-added services in logistics warehouses, availability of qualified staff has become a structural as well as a cyclical driver and this ranked highly in the 2015 and 2013 surveys, as well as 2017. Metropolitan areas have large labour pools and offer the best opportunities to find a qualified workforce. Skilled staff availability was in the top three criteria for all sectors, achieving the highest scores from automotive and pharma customers.

4. FURTHER CONSOLIDATION EXPECTED IN NEXT FIVE YEARS

Although the onward march of e-commerce suggests decentralization, most emerging trends anticipated indicate that the logistics sector will move towards consolidation.

Taking the 13 trends that are likely to drive change over the next five years, we asked respondents which drivers would lead to consolidation within their distribution networks and which to decentralization.

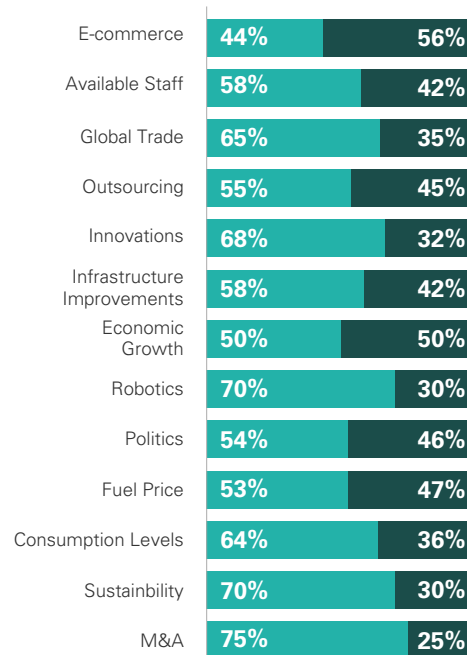
The growth of e-commerce - with its increasing proliferation of regional fulfillment centres and local parcel hubs - was seen by all customer sectors as the only driver towards decentralization.

The move towards consolidation is expected to accelerate as emerging trends, such as sustainability, technological innovation and consolidation gather pace. Respondents in the electronics, consumer products and apparel sectors believed sustainability to be a powerful driver, while those in apparel – along with respondents in the pharma sector – thought that technological innovation and robotics would also have a strong impact on the trend towards consolidation.

Technological innovations are evolving rapidly in our sector, leading to more agile supply chains and faster delivery times. Among food and beverage and freight companies, technological innovation was highly rated, but when the results were aggregated across all sectors, innovation - along with robotics - achieved only mid-range ranking. Currently, it is mostly the largest logistics warehouse operators who are investing in robotics.

As in the 2015 survey, political issues were not seen to have a strong influence on location decisions over the next five years. Among logistics operators, investment horizons are long. Demand for logistics warehouses is mostly driven by supply chain modernization and consumption, so location decisions are influenced by long-term trends and only to a lesser extent by short-term political changes.

EXHIBIT 4: Drivers of change and effects on distribution



Source: Prologis Research

Declining unemployment rates, changing demographics and a growing demand for logistics employees is shaping location decision-making in the short and longer term. The importance of the availability of qualified staff has been a consistent theme of the 2017 survey and respondents thought that the skilled labour requirement was

another reason for consolidation. Since staff availability is expected to be one of the top three factors influencing decision-making over the next five years, recruitment issues are likely to present an even more persuasive argument for consolidation in future.

5. CONSOLIDATION OF DISTRIBUTION NETWORKS LEADS TO FURTHER EXPANSION

Evolving logistics real estate models reflect the need for ever more efficient distribution supply chains.

In the final section of our 2017 survey, we asked how respondents would describe their current distribution network and what they expected it to look like by 2022. While the results show further growth and a continuing trend towards consolidation, they also show that this is happening on two levels.

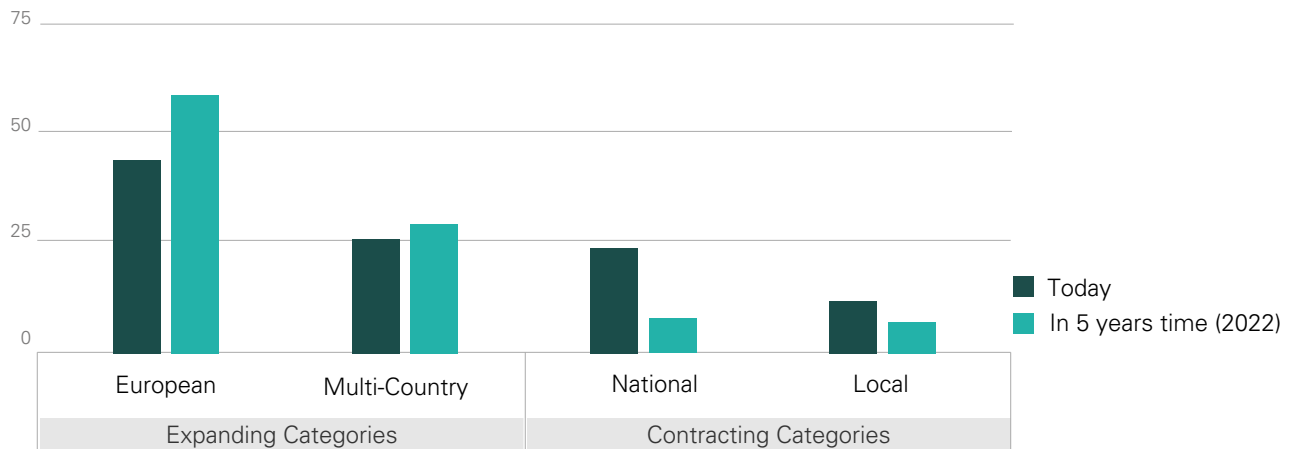
Firstly, as markets develop and consolidation continues, more European distribution networks are expected. Results show that in five years' time, around 60 percent of logistics operators expected to be operating at a pan-European, rather than at a national or at a local level.

Specifically, customers in the electronics, automotive sectors are moving towards this model.

Secondly, an increase in multi-country networks is expected in the next five years. This model involves one central distribution centre and several smaller satellite hubs, which provide a lean, efficient supply chain for fast-moving goods and e-commerce operations. Specifically, customers in the apparel and pharma sectors, which already have pan-European networks, are now moving to a multi-country network strategy.

Once again, the trends show an increasingly sharp focus on optimal operational efficiency. On an asset level, the most efficiency gains are achieved in larger Class-A distribution centres.

EXHIBIT 5: Network Type Evolution (%)



Source: Prologis Research

CONCLUSION

Supply chain reconfiguration has been – and will continue to be – the most important driver of demand for logistics real estate across Europe. For companies seeking to maximise the efficiency of their operations, prime locations are a vital part of successful distribution strategies.

In the search for efficiency, companies are also consolidating their networks in larger, more efficient Class-A distribution centres. In five years' time, pan-European and multi-country networks will expand further, driving strong demand for modern logistics space.

While warehouse users operate across a wide variety of sectors, they have similar location priorities. Each sector needs facilities that are close to large urban areas with good transport networks. Ideally, these sites should also offer a skilled, flexible workforce. In fact, since labour availability is essential for efficient operations, the dynamics of the labour market has become one of the structural trends influencing location decisions.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security. We are not soliciting any action based on this material. It is for the general information of customers of Prologis.

This report is based, in part, on public information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. No representation is given with respect to the accuracy or completeness of the information herein. Opinions expressed are our current opinions as of the date appearing on this report only. Prologis disclaims any and all liability relating to this report, including, without limitation, any express or implied representations or warranties for statements or errors contained in, or omissions from, this report.

Any estimates, projections or predictions given in this report are intended to be forward-looking statements. Although we believe that the expectations in such forward-looking statements are reasonable, we can give no assurance that any forward-looking statements will prove to be correct. Such estimates are subject to actual known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those projected. These forward-looking statements speak only as of the date of this report. We expressly disclaim any obligation or undertaking to update or revise any forward-looking statement contained herein to reflect any change in our expectations or any change in circumstances upon which such statement is based.

No part of this material may be (i) copied, photocopied, or duplicated in any form by any means or (ii) redistributed without the prior written consent of Prologis.

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 June 30, 2017, 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 684 million square feet (64 million square meters) in 19 countries. Prologis leases modern distribution facilities to a diverse base of approximately 5,200 customers across two major categories: business-to-business and retail/online fulfillment.

