

# Logistics Real Estate Demand Lags Economic Activity



- **Prologis' April Industrial Business Indicator (IBI™) Activity Index reading came in at 56.3, remaining in the expansionary range of 56-60 since September 2023.**<sup>1</sup> The level is consistent with demand generation, supported by macro data that reflects restocking inventories amid resilient consumption activity, although realized net absorption has lagged.
- **New development starts decreased further through Q1 to 33 million square feet, 34% below pre-COVID levels.** As a result, deliveries will fall sharply later in 2024, putting downward pressure on availabilities. This could lead to greater competition for space into 2025.
- **U.S. rents fell by 1.4%, with rent declines highly concentrated in a handful of markets.** Excluding weakness in Southern California from the aggregate numbers, U.S. logistics rents rose 0.2% on average in Q1 2024.

**The IBI Activity Index fell slightly to 56.3 in April**, down from an average of 58 during the first quarter. Macro drivers have been solid: core retail sales grew 1.1% month-over-month in March and 4.5% year-over-year. Adding to demand drivers, the more logistics-intensive e-commerce channel outperformed with 2.7% month-over-month and 11.3% year-over-year growth while in-store sales grew 0.4% month-over-month and 2% year-over-year in March.<sup>2</sup>

**The IBI utilization rate stabilized around 85% in March and April, up from a Q4 low of approximately 83%, as operators used more space in existing facilities.**

Despite a strong rise in import volumes, sales outpaced inventory growth, pushing down the inventory-to-sales ratio to 1.24, approximately -3% below the 2019 average.<sup>3</sup> This points to further need to build inventories, particularly for wholesalers.

**Net absorption of only 26 million square feet underperformed the macro climate.**<sup>4</sup> IBI readings and macro data suggest logistics real estate demand growth should be higher than what was realized in Q1. Two temporary factors are at work:

1. The ability of some customers to accommodate business growth in existing networks, illustrated by a lower-than-typical IBI utilization rate during recent months and a rise in sublease space in some markets. This excess capacity will likely be exhausted in the next one to two quarters because the IBI utilization rate rose to 84.8% in April compared to a normal expansionary level of 85%-86%, and growth in sublease space this quarter slowed in all markets, except Southern California and Seattle.

2. Delayed decision-making because of economic uncertainty and a focus on cost control: Evidence of this trend includes extensive property tours, longer deal gestation times and delayed occupancy dates, even with a rise in proposal activity.

**New deliveries fell 35% in Q1 from the prior quarter as the historic wave of completions winds down.** Together with the precipitous fall in new groundbreakings, the construction pipeline decreased by more than half year-over-year. Looking forward, still-tight construction financing and still-high construction costs should keep new supply under pressure through the near term, even as we expect demand growth to improve in the coming quarters.

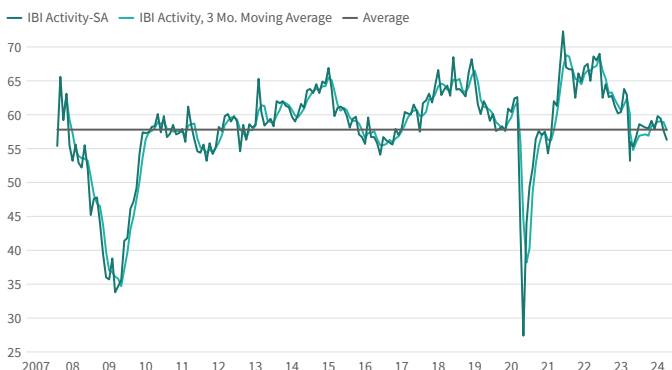
### Conclusion:

Logistics market conditions are rebalancing, yielding new growth opportunities for customers in select locations and size categories, after a period of unprecedented scarcity and competition for space. This opportunity could be short-lived, however, given the rapid fall in new supply and leading indicators that suggest an accumulation of pent-up demand. Prologis Research expects the U.S. vacancy rate to peak in the mid-6% range during 2024 and gradually fall to the mid-5% range in 2025. Customers that led the market in securing space during similar past periods are already actively leasing. We continue to recommend advance planning and early action to take advantage of this stage of the logistics real estate mini-cycle.

Exhibit 1

#### IBI ACTIVITY INDEX

Index, 50 = neutral, seasonally adjusted

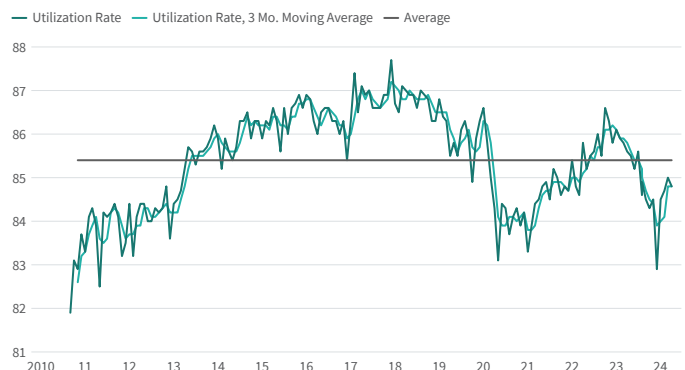


Source: Prologis Research.

Exhibit 2

#### UTILIZATION RATE

%, seasonally adjusted



Source: Prologis Research.

Exhibit 3

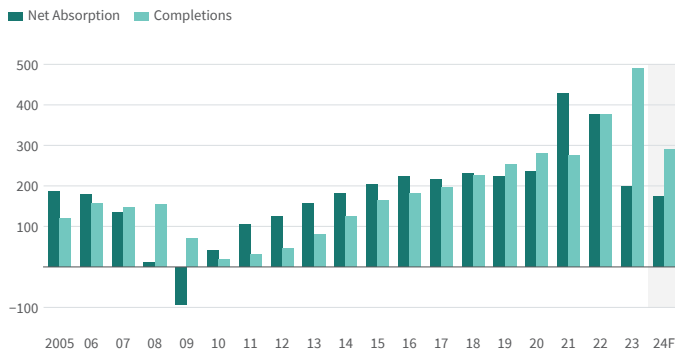
**SUMMARY OF NET ABSORPTION INDICATORS**

	LATEST READING	AS OF	NET ABSORPTION, MSF		REGRESSION FIT (R-sqr)
			Quarterly	Annualized	
<b>IBI-Activity</b>	<b>56.3</b>	<b>Apr 2023</b>	<b>36</b>	<b>145</b>	<b>0.83</b>
<b>Weighted Average of Econ Variables</b>			<b>36</b>	<b>144</b>	
PMI (non-mfg)	52.5	Mar 2023	32	127	0.78
Jobs (private)	212	Mar 2023	39	155	0.70
Core Retail Sales	2.6%	Mar 2023	34	136	0.72
Inventories	70.1	4Q 2023	40	161	0.69

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

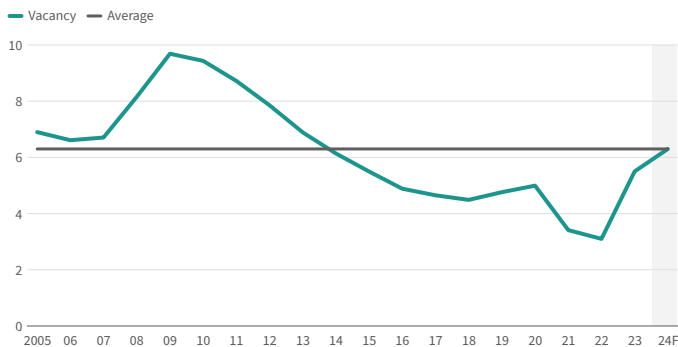
**MARKET FUNDAMENTALS, U.S. MSF**



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

Exhibit 5

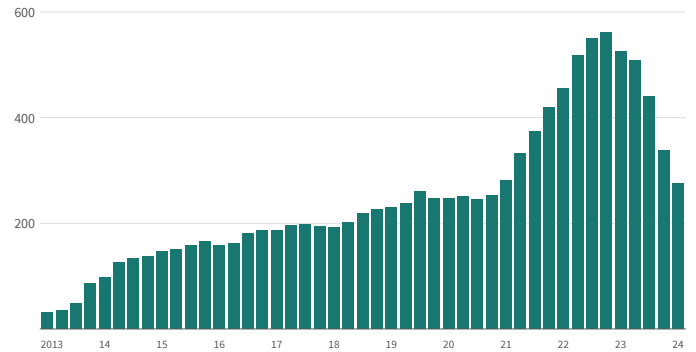
**VACANCY, U.S. %**



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

Exhibit 6

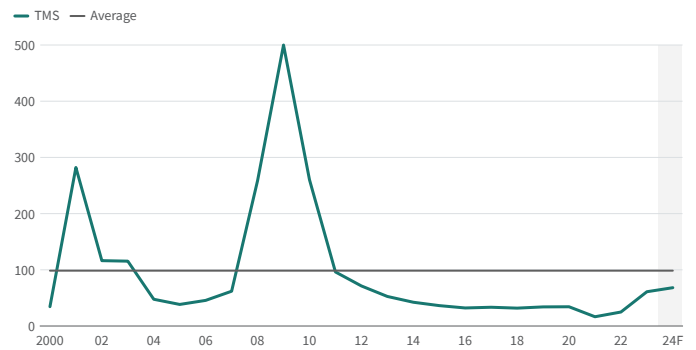
**UNDER CONSTRUCTION, U.S. INDUSTRIAL MSF**



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

Exhibit 7

**U.S. TRUE MONTHS OF SUPPLY Months**



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

Exhibit 8

**U.S. RENT GROWTH % y/y**



Source: 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, 2024, 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 (114 million square meters) in 19 countries. Prologis leases modern logistics facilities to a diverse base of approximately 6,700 customers principally across two major categories: business-to-business and retail/online fulfillment.

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## Endnotes

- 1 Prologis Research.
- 2 U.S. Census.
- 3 U.S. Census. Note: Inventory-to-sales ratio excludes gas and auto.
- 4 Source: CBRE, JLL, Cushman & Wakefield, Colliers, CoStar, CBRE-EA, Prologis Research.

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