

Utilization Rising



Select IBI takeaways:

- **The vacancy rate fell 10 bps from the prior quarter to a record low of 3.1%.** Competition for few availabilities drove up rents by 6.9% in Q2.¹
- **Potential new supply is stuck in the construction pipeline.** Only 73 MSF of new logistics space was delivered vs. 100 MSF absorbed.
- **Activity in U.S. warehouses grew at a strong pace in Q2.** Utilization increased to 85.6%, indicating no excess space within facilities. Together, this data points to the need for more warehouse space to accommodate future growth.

Retail sales and re-stocking boosted the flow of goods through 2Q. IBI activity increased 140 bps from the prior quarter to 66.4 in 2Q. Logistics users continued to expand distribution network, absorbing 100 MSF of space in 2Q, up from ~90 in 1Q.

Utilization of space rose as supply chain bottlenecks eased, allowing for inventory build. The utilization rate increased slightly from the previous quarter by 10 bps to 85.6% in June. The long-term average rate is 85%, and the functional ceiling is in the 86-87% rate.

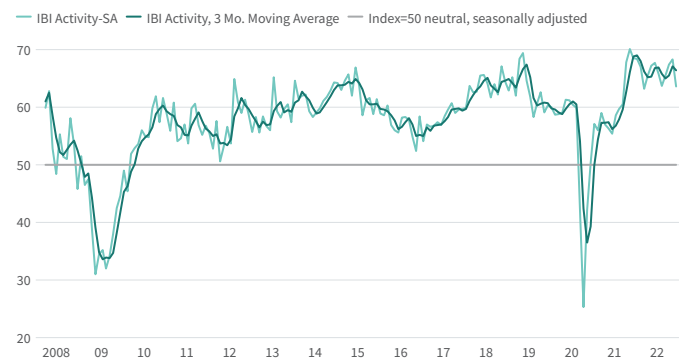
New supply remains elusive. Only 73 MSF came online and the amount of space under construction increased to 468 MSF as projects remain stuck in the construction pipeline. Starts remained elevated at 112 MSF.

Materials inflation, a shortage of land and labor, and continued supply chain disruptions are increasing the cost and time required to construct a building. In response, developers must seek higher rents to justify new development. Market rents increased by 16% in the first half of the year.

Exhibit 1

IBI ACTIVITY INDEX

Index, 50 = neutral, seasonally adjusted

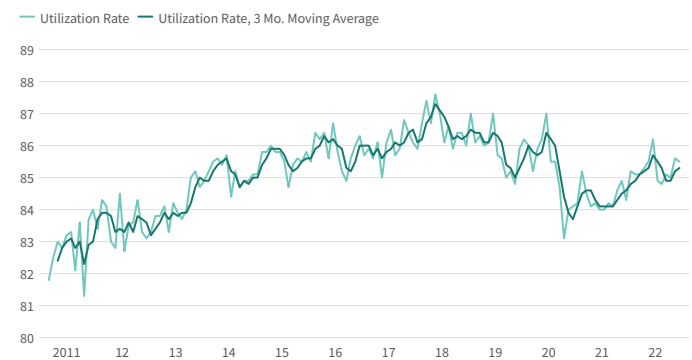


Source: Prologis Research.

Exhibit 2

UTILIZATION RATE

%



Source: Prologis Research.

Exhibit 3

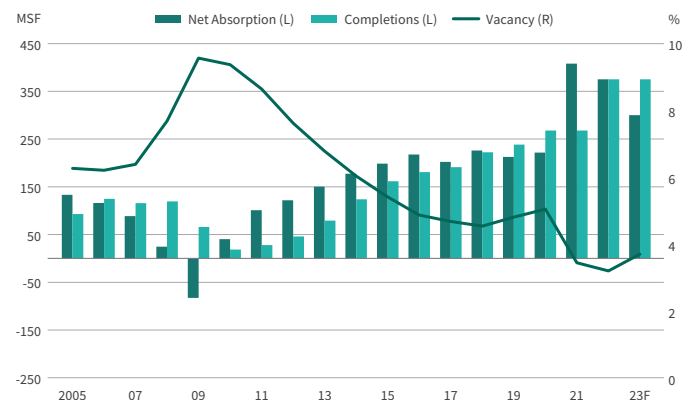
SUMMARY OF NET ABSORPTION INDICATORS

	LATEST READING	AS OF	EST. NET ABSORPTION, MSF		REGRESSION FIT (R-sqr)
			Quarterly	Annualized	
IBI-Activity	66.4	Jun 2022	92	369	0.84
Weighted Average of Econ Variables			81	323	
PMI (non-mfg)	56.1	Jun 2022	72	290	0.78
Jobs (private)	362	Jun 2022	86	343	0.68
Core Retail Sales	4.8%	May 2022	77	307	0.71
Inventories	237.5	1Q 2022	90	361	0.64

Note: Values are a 3-month trailing average, except inventories. Stock, absorption, completions, under construction and vacancy fundamentals now represent a narrowed 30 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.

Exhibit 4

MARKET FUNDAMENTALS, U.S.

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

True Months of Supply (TMOS), or the amount of time it would take to absorb all available supply, remained low at 18.2 months, albeit up slightly from 16.4 in 1Q. Behind this move, the proportion of space pre-leased decreased slightly, in line with reports of developers holding out for higher rents as both construction costs and market rents increase swiftly.

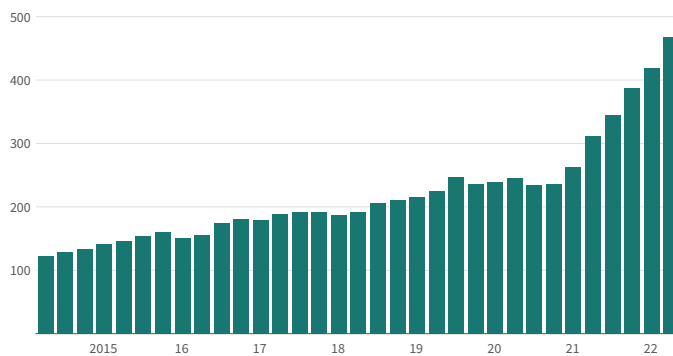
Market conditions to remain challenging through near term. Low TMOS corresponds to strong rent growth and, along with rapid year-to-date increases, caused Prologis Research to lift our 2022 rent growth forecast to 25%. The strong IBI reading equates to an annual demand run-rate of almost 370 MSF, in line with our 2022 forecast for 375 MSF of net absorption. Deliveries should catch up with demand by year-end, keeping the vacancy rate at 3.2% - stable from year-end 2021.

Economic uncertainty could slow urgency of expansion.

Our base case remains a soft landing and continued economic growth. However, the frenzied pace of leasing is already cooling, and users could see increased options by year-end 2023. Prologis Research expects 375 MSF of deliveries as supply chain issues improve further, 300 MSF of demand as users slow the pace of decision-making in an environment of greater uncertainty, and the vacancy rate to expand to a still-low 3.7%. Market rent growth would continue to outpace inflation in this environment, as TMOS expands to 22 months. Still, depending on the market, users are likely to face much less choice than in pre-pandemic times, leading to substantial benefits for those who can plan and act in advance.

Exhibit 5

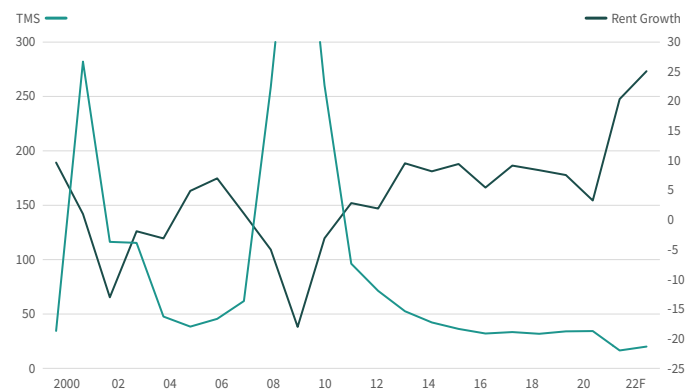
UNDER CONSTRUCTION, U.S. INDUSTRIAL MSF



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

Exhibit 6

U.S. TMOS



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 June 30, 2022, 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 1.0 billion square feet (93 million square meters) in 19 countries.

Prologis leases modern logistics facilities to a diverse base of approximately 5,800 customers principally across two major categories: business-to-business and retail/online fulfillment.